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PAPERS AND PROCEEDINGS

OF THE

Fifty-fifth Annual Meeting

OF THE

AMERICAN ECONOMIC ASSOCIATION

Washington, D.C., January, 1943

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PROGRAM OF THE FIFTY-FIFTH ANNUAL MEETING

The meeting scheduled for December 28-31, 1932, in Cleveland, Ohio, was canceled in compliance with a request from the Office of Defense Transportation. The major part of the material prepared for these meetings was presented at a series of sessions held in Washington, D.C., January 4-12, 1943, and all papers and discussions received by the Editor, whether read or not, are included in this volume.

Twelve main sessions and four round table meetings were held during the eight-day period, three of these jointly with the Washington Chapter of the American Statistical Association. In all, thirty-three papers and thirty-one discussion reviews appear in this volume. The presidential address will be published, as usual, in the March issue of the *American Economic Review.*

The papers are not printed in chronological order as scheduled in either the Cleveland or the Washington program but are presented by subjects as indicated in the table of contents. It will be noted that the organization of topics follows the general plan of treating domestic subject matter first and then international economic relations. In order to maintain coherence of treatment, discussions follow immediately after the papers reviewed.

The specific arrangement is as follows: Economic claims of government and of private enterprise, three sessions; industrial adjustments at the end of the war, two sessions; labor problems, two sessions; price control, one session, one round table; international economic relations, five sessions, three round table meetings. Comparison with the preliminary program can be made by referring to the December number of the *Review.*

It was the purpose to focus this year's program on the general theme of private enterprise and government activity in the economic sphere and their most effective interarticulation during the postwar years. This was made the specific topic of the first three sessions here presented, which were regarded as "general theme sessions." But speakers on other programs were urged to carry over the same general line of approach, so far as possible, into their examinations of both domestic and international topics. In the first group of sessions particularly, but also to some extent in others, there was a general purpose to look at pending economic problems through the eyes not only of academic economists but also through the eyes of government officials and of businessmen.

As to the time focus of these deliberations, it was our purpose not to make it either too short or too long. We did not wish to concern ourselves merely with the minutiae of how our economy functions during the progress of a war. On the other hand, we did not want to become economic soothsayers and try to evaluate the "permanent" effects of war influences or the prospects of return to prewar conditions. It did seem, however, that there were many significant war developments whose impact on the economy could now be discussed in terms of their apparent trend and their general order of magnitude even where actual figures must be kept confidential. In such areas our speakers were asked to give us their best thinking as to the nature of the situations by which we might expect to be confronted or the issues we will have to face when we come to the task of reconverting our economic life to a peacetime basis.

Monday, January 4, 1943

4:00 P.M. *Problems of Public Policy Raised by Collective Bargaining*
Chairman: Sumner H. Slichter, Harvard University
Papers: David A. McCabe, Princeton University; C. O. Gregory, University of Chicago; Lloyd Reynolds,[1] Johns Hopkins University; Gordon R. Clapp, General Manager, Tennessee Valley Authority
Discussion: Abram L. Harris, Howard University; Marion H. Hedges, International Brotherhood of Electrical Workers; Arnold S. Zander, American Federation of State, County, and Municipal Employees

8:00 P.M. *The Economic Claims of Government and of Private Enterprise*
Chairman: Bernard F. Haley, Stanford University
Papers: James M. Barker, Vice-President, Sears, Roebuck and Company; Alan R. Sweezy, Williams College; Adolf A. Berle, Jr., Department of State
Discussion: Charles C. Abbott, Harvard University and War Shipping Administration; Myron J. Spencer, University of Cincinnati

[1] To be published by the American Farm Economic Association.

Tuesday, January 5, 1943

4:00 P.M. *The Restoration of International Trade*
Chairman: E. Dana Durand, United States Tariff Commission
Papers: Lynn R. Edminster, Commissioner, United States Tariff Commission; Redvers Opie, British Embassy
Discussion: Geoffrey Crowther, Editor, The London Economist; Gottfried Haberler, Harvard University; Frank D. Graham, Princeton University

6:30 P.M. *Meeting of the Executive Committee*

8:00 P.M. *The Economic Claims of Government and of Private Enterprise (Continued)*
Chairman: Paul T. Homan, Cornell University
Papers: Clifford J. Durr, Commissioner, Federal Communications Commission; Joe S. Bain, University of California; Lewis H. Brown, President, Johns-Manville Corporation
Discussion: Leverett S. Lyon,[2] Chicago Association of Commerce; Frederic B. Garver, University of Minnesota; R. A. Gordon, University of California

Wednesday, January 6, 1943

3:30 P.M. *Business Meeting*

4:00 P.M. *The Future of International Investment* (Joint meeting with the Washington Chapter of the American Statistical Association)
Chairman: Amos E. Taylor, United States Department of Commerce
Papers: Victor Schoepperle, National City Bank; Frank W. Fetter, Haverford College; C. P. Kindleberger, Office of Strategic Services
Discussion: R. L. Hall, British Supply Office; Michael A. Heilperin, Hamilton College; John Parke Young, Department of State; Floyd Blair, National City Bank

8:00 P.M. *The Economic Claims of Government and of Private Enterprise (Continued)*
Chairman: Joseph S. Davis, Food Research Institute
Papers: Fritz Machlup, University of Buffalo; Edwin G. Nourse,[3] Brookings Institution
Discussion: Maynard C. Krueger,[2] University of Chicago; J. Frederic Dewhurst, Twentieth Century Fund

Thursday, January 7, 1943

1:00 P.M. *Meeting of the Executive Committee*

4:00 P.M. *International Financial Relations after the War*
Chairman: James W. Angell, Columbia University
Papers: Eugene Staley, Fletcher School of Law and Diplomacy; Eugene V. Rostow, Department of State; Harry D. White, Treasury Department
Discussion: A. F. W. Plumptre, Canadian Legation; John H. Cover, Office of Lend-Lease Administration; John K. Langum,[2] Federal Reserve Bank of Chicago

8:00 P.M. *Our Industrial Plant When Peace Comes*
Chairman: Harold G. Moulton, Brookings Institution
Papers: Glenn E. McLaughlin, National Resources Planning Board; Hans A. Klagsbrunn, Vice-President, Director, and General Counsel, Defense Plant Corporation; Edwin M. Martin, War Production Board
Discussion: George Terborgh,[2] Machinery and Allied Products Institute; Adolph G. Abramson, SKF Industries

Friday, January 8, 1943

4:00 P.M. *Economic Regionalism and Multilateral Trade*
Chairman: Joseph H. Willits, Rockefeller Foundation
Papers: Folke Hilgerdt, League of Nations; Antonin Basch, Columbia University; William W. Lockwood, Institute of Pacific Relations; Henry C. Simons, University of Chicago
Discussion: Margaret Gordon, Office of Price Administration; Henry Chalmers, United States Department of Commerce

8:00 P.M. *Financial and Government Contract Adjustments of Industry at the End of the War* (Joint meeting with the Washington Chapter of the American Statistical Association)

[2] No manuscript received.
[3] To be published in the March, 1943, number of the *American Economic Review*.

Chairman: Alvin H. Hansen, Harvard University
Papers: William Hoyt Moore, Bureau of Labor Statistics; Alexander B. Hawes, War Production Board; Thomas C. Blaisdell, Jr., War Production Board
Discussion: Walter Lichtenstein,[2] First National Bank of Chicago; William H. Wynne, National Resources Planning Board

Saturday, January 9, 1943

4:00 P.M. *Round Table on Bases of International Economic Relations*
Chairman: Leo Pasvolsky, Department of State
Secretary: H. J. Wadleigh, Department of State
A discussion panel consisting of speakers from the four preceding sessions on international trade and finance

8:00 P.M. *Our Labor Force When Peace Comes*
Chairman: A. Ford Hinrichs, United States Department of Labor
Papers: Charles D. Stewart, United States Department of Labor; Richard A. Lester, Duke University; Wilson Wright, Armstrong Cork Company
Discussion: Paul L. Stanchfield,[2] Michigan Unemployment Compensation Commission; J. Raymond Walsh,[2] Congress of Industrial Organizations; Boris Shishkin, American Federation of Labor

Monday, January 11, 1943

4:00 P.M. *Round Table on International Commodity Agreements*
Chairman: Joseph S. Davis, Food Research Institute
Secretary: Robert M. Carr, Department of State
Assistant Secretary: Gordon P. Boals, United States Department of Agriculture
Informal off-the-record discussion among members of an invited group

8:00 P.M. *Round Table on International Commodity Agreements (Continued)*

Tuesday, January 12, 1943

4:00 P.M. *Round Table on Case Studies in Price Control*
Chairman: M. G. de Chazeau, University of Virginia
Papers: John D. Sumner, University of Buffalo and Office of Price Administration; Phillip Coombs,[2] Office of Price Administration; William A. Neiswanger, University of Illinois and Office of Price Administration; Karl L. Anderson, Bryn Mawr College and Office of Price Administration

8:00 P.M. *Price Control and Rationing* (Joint meeting with the Washington Chapter of the American Statistical Association)
Chairman: Edward S. Mason, Harvard University
Papers: J. K. Galbraith, Office of Price Administration; Richard Glenn Gettell, Office of Price Administration
Discussion: Jules Backman, New York University; W. Allen Wallis, Stanford University

THE purpose of the American Economic Association, according to its charter, is the encouragement of economic research, the issue of publications on economic subjects, and the encouragement of perfect freedom of economic discussion. The Association as such takes no partisan attitude, nor does it commit its members to any position on practical economic questions. It is the organ of no party, sect, or institution. Persons of all shades of economic opinion are found among its members, and widely different issues are given a hearing in its annual meetings and through its publications. The Association, therefore, assumes no responsibility for the opinions expressed by those who participate in its meetings.

JAMES WASHINGTON BELL
Secretary

ECONOMIC CLAIMS OF GOVERNMENT AND OF PRIVATE ENTERPRISE

SURVEYING THE BOUNDARY LINE BETWEEN GOVERNMENT AND PRIVATE ENTERPRISE IN THE FIELD OF BUSINESS

By James M. Barker
Sears, Roebuck and Company

It was a typically graceful gesture on the part of your president and his committee to give a businessman a place on your program, with the chance to present his perspective of the boundary line between government and private enterprise in the field of business, but ever since I accepted the invitation I have marveled at my own temerity. I am not skilled in dialectics, but perhaps you are not either. We businessmen are not economists in the technical sense of the term. Certainly we have not been "political" economists, so to speak. I am warping the term a little, I know, but what I mean is that we have not sufficiently concerned ourselves with the political aspects of business. We have had to occupy ourselves absorbingly with the basic problem of meeting a pay roll. That is a sobering experience, and I wonder sometimes if it should not be a part of the required course of training for politicians, reformers, social workers, and statesmen. If it were, I know that they would be more understanding of the problems of the businessman, and less critical of him. Really we are not as bad as we are sometimes painted. Our severest critics seem generally to be those who have never actually entered and struggled in the business arena as contestants, but who have always viewed it from the side lines. We have heard much criticism of armchair and typewriter strategists in the war effort. A good deal might be said along the same critical lines regarding typewriter strategists in the field of business effort.

The necessary activities of government in wartime have of course complicated any discussions such as this in which these meetings are engaged. They would be pretty academic, were it not for our confidence that the war will end sometime, and with the palm of victory in our hands. In what I am going to say I want to make it plain that I am not discussing the abnormalities of a wartime economy. Rather my wish is to bring out some broad principles underlying the relationships of government and private enterprise in the field of business. What form the economic structure of the country will have when the shooting is over, none of us is wise enough to tell. However, we can safely assume, I think, that the basic elements of human nature will

not be much changed. That, after all, is what will determine the direction in which the world will move. President Lowell, of Harvard, once said that economics, so far as it is a science, is a biological science. That has for many years been my viewpoint, and I am going to approach the subject in hand, not by the route of personal preference, but rather through an examination of some of the basic human characteristics which must be recognized if any organization dealing with the affairs of men is to work soundly. Head and shoulders above all the rest of these characteristics seems to me to tower the need for checks and balances.

Now this point of checks and balances is really a universal biological principle. For instance, the skill with which we use our hands depends on the balanced opposition of different sets of muscles. If we are worth while as individuals, it is because we daily are growing stronger and wiser through tussling with opposing forces which check and balance our efforts. The jack rabbit, introduced into Australia, grew into a force of devastation until it was adequately checked and balanced. The fishes in the sea would fill it up were it not for the natural checks which hold that teeming population in balance. The individual, the organization, the party, or the nation that does not feel itself checked and balanced by an imminent or at least potentially opposing power seems to lose its sense of proportion and falls a victim to the abuses of its megalomania. Out of the checks and balances that stem from opposition grow the sense of proportion and the strength of fiber which perpetuate an institution. Through them come about those evolutionary changes which fit the organism, whatever it may be, for continued existence in a world of flux. In this principle you have the foundation of my thinking with regard to the relations of government and private enterprise in the field of business. I state it more specifically as follows: When government engages in business, there is no superior or opposing power left to introduce the necessary checks and balances into its activities.

I have just given you the basis of my thinking, but there are some other essential human characteristics which underlie this whole matter of government engaging in business. Business is a well-nigh universal phenomenon. It consists of all the activities related to the production and exchange of goods and services. That brings us squarely up against the profit motive. It does seem to me that the experience of the world to date, including what we know of both national socialist and communist systems, confirms that the profit motive in men's minds is basic and has to be reckoned with. The "party" in such nations as operate under these systems is a relatively small group in proportion to the great mass of the state's population. So far

as I can see, the "party" and its members get profits in the form of perquisites for themselves which are not shared with the mass of the people. The leaders have had to recognize that unless they reward initiative and effort they do not get results.

Private business enterprise takes risks for the sake of potential profits as a matter of course. Stockholders, employees, and management all understand the need for profits, and expect to share in them when they are made. Even the state expects its part, and a large part, too, of the profits of business. The result is that those who make the effort, and especially the extra effort, expect proportionate monetary rewards. In the operation of government, this is generally not true. While some feel rewarded with the satisfaction of having done a good job, I fear the world has not yet evolved to the point of perfection where these are more than a small proportion. Where in private enterprise the owners, the managers, and the employees have this real interest in the success of the venture, and therefore contribute effort and initiative with that incentive, in the pseudobusiness operations of government, as in its bureaucracy, the rewards for the most part are in stability of employment, in pensions, in lower required standards of accomplishment and hence of effort, and in prestige. I am inclined to think too that freedom to organize in labor unions is a feature of employment in private enterprise that probably appeals to the employee. In government employment, after all, there are few possibilities of effective unionization.

I want to stress this point of reward. In business enterprise it is usually in the form of material gain—money or its equivalent. Outstanding rewards in government are apt to be in the form of power. My own observation is that men are generally wiser in the use of their property accumulations than in the use of power. I should personally much prefer to be the victim of a system where money is misused than of one where power is used unwisely. Then too these power rewards in government are usually concentrated in relatively few hands, whereas material rewards under private enterprise are apt to be more widely distributed. In private enterprise the capable individual generally makes progress with his firm in proportion to his abilities, or else he is apt to seek other employment. In government, advancement is much more dependent on seniority, on "dead men's shoes," on political skill, or on friendships. In private enterprise, responsibility is generally clean-cut and definite, with its discharge measured by understood standards of accomplishment. In government, responsibility is generally vague, and its discharge measured by political standards, dictated in the last analysis by elected legislatures through political appointees, and with no pub-

lished annual balance sheet and profit and loss account to show the results. In private enterprise, the executive's aim is to do better than the budget, to reduce costs, to operate more efficiently. In government, the executive's aim is to spend all of the appropriation and to show cause for a larger one for fear that a residue of unused appropriation will result in a decreased amount next year. This is not criticism of government, but a plain statement of fact. I do not criticize water because it freezes in the radiator of my automobile when the temperature drops below thirty-two. I recognize it as a fact and act accordingly. My attitude toward government inefficiency is the same. I recognize it as a fact, a characteristic of government, since the profit motive is absent in the form of rewards for bettering the budget.

I do not intend to be severe on elected legislatures and executives, or political employees. I am merely pointing out some of their recognized characteristics. The type of legislative body which passes an antievolution instruction law, or keeps in force our present national silver policy, or uses the filibuster method in arriving at its decisions, does not exercise the sort of judgment which makes for successful or efficient business administration. Governor Talmadge and Huey Long, as elected executives, were not the type of men whose dictation appears to have been exactly what would be called constructive. Public education is a great enterprise, with important business aspects of income and expenditure. It does not seem to me that government control of it has been wisely used in certain cases of state universities and in some of our large municipal school systems. Another point is that a good public administration may have difficulty in perpetuating itself over an elective change in office holders, whereas good administration of private enterprise is more likely to be continuous, and conscientiously to maintain and improve its standards.

Private business enterprise competes in a field open to all comers, where the cost factors, generally speaking, are comparable for all. When government enters as a competitor, its cost factors in large part are of its own making. By its accounting, and its tax policy, it can if it wishes, kill competition by underselling it. I quote from the New York *Times* of October 28, 1942:

> The latest eyebrow-raiser in utility circles came to light yesterday when it became known that the White House recently has forwarded a letter to important government agencies urging that all government war production plants obtain their electric power requirements from lowest cost sources, in so far as this is possible. Thus, in such important war production areas as the Tennessee Valley and the Pacific Northwest it would mean that the TVA and similarly publicly owned power projects should have first call in serving war plants with power needs, while private industry power plants, bearing a large measure of war taxation, would get second call in supplying kilowatts for essential war production. Because of the tax-exempt features of their operations, publicly owned utilities are able in many instances to undersell privately owned companies.

I believe that the types of business entered into by the government in the utility field over the past years could have, and in large part would have, been carried out by private capital, had it not been hampered and discouraged by excesses of regulation and by continued imposition of the capital gains tax. I do not include such a project as "Grand Coulee" in this, for it is probably much too far ahead of its time to have been contemplated by private capital. Lincoln believed that "this government cannot endure permanently half slave and half free." The same principle seems to me to apply to the field of business. The government is all-powerful. It can tax others and remit imposts on its own business operations. Sooner or later private enterprise will be driven out of any field by the pressure of government competition supported by taxpayers' money.

Of course the post office always occurs to us as an example of a business which has to be a government monopoly. When this case is analyzed, however, two aspects of postal service stand out as requiring the intervention of government. One is the negotiation with other governments to provide domestic reciprocal delivery of foreign stamped mail matter on a flat rate basis. The other is the need for issuing postage stamps which shall be limited legal tender. I do not wish to switch my discussion at this point to the sidetrack of the pros and cons of private operation of the postal system. I do think that most of us who have had firsthand experience of government operated railways or telegraphs or telephones in foreign lands, and have compared their service to the public with those of our own able and efficient private companies, must have meditated, as have I, on the shortcomings of such government operation and given thanks that we have so far escaped that calamity.

The reason is not far to seek for the comparative lack of efficiency of government operated businesses. A British railway authority visited the United States some years ago to study American railway construction, operation, and maintenance, in comparison with similar European undertakings, state owned and otherwise. I have to quote his conclusion from memory, but essentially it was this: American railway management through its responsibility to private ownership looks ahead, studies trends, and spends money on development, believing that its errors of judgment will be balanced by the owners against its successes, and confident that if the balance is favorable the management will be continued. For instance, if a new type of motive power or a new signal system becomes available which it thinks on careful analysis will speed up traffic, save time, and make more profits, American management proceeded on the basis that it would be judged on its broad record and not on the failure of a

single experiment. With state owned railways, he said, this is not the case. No official dares to "stick out his neck" by making a decision the results of which he thinks may be profitable, but which may not prove to be. He knows that in such cases someone will stand ready to make political capital out of an unsuccessful decision, so he takes no chances. This statement was probably more true in the past than in the present specifically as regards railroad enterprises. The commission regulation of our systems has had very severe effects on them, involving as it does many of the characteristics of government ownership without corresponding responsibilities. The principle back of his observations applied to government owned business in general seems to me to be wholly sound.

I thought a good deal about this when I visited Africa in 1938. I was greatly impressed with the transportation problems in that vast continent, and particularly in the Union of South Africa. There all of the railways and air lines and many of the principal bus and truck transport lines are government owned and operated. The government, acting through a Central Road Transportation Board, sees to it that privately operated trucks and buses do not compete with the government owned railway or bus lines. One who is accustomed to the dynamic feel of transportation in the United States, stimulated as it is by competition, could not but contrast the operations in the two lands in favor of our system. A South African commission of inquiry appointed by the government reported in 1934 that "while all agreeing that there should be some form of control of road motor transport, [they] urge that the Motor Carrier Transportation Act has gone much too far in this direction and has virtually created a monopoly of road transport in favour of the railways. They urge that the Act should be amended so as to reintroduce some measure of effective competition as between the railways and private road motor transport." So far as I know up to 1938 such amendment was not made, but it is interesting to note that in 1935 the South African Central Road Transportation Board recommended "that legislation be adopted whereby a stop will be put to the anomalous situation of restrictions being placed on modern motor transport while out-of-date and uneconomic animal-drawn transport is allowed to operate unchecked." Not content with its complete domination of the field of mechanical transport, the government was moving to dominate the sole remaining competitor. It is an interesting example of how government owned business tries to eliminate competition.

We have had a recent example of political judgment applied to basic business decision in the attitude of certain Southern senators toward the use in tires of rayon instead of cotton. There seems to

be no doubt that, technically, rayon is superior and that it requires the use of less rubber in a tire. It is doubtful if the use of rayon in tire manufacture would have been tried had tire manufacturing been a government business. The "cotton bloc" like the "silver bloc" appears to have great influence.

I simply do not believe that government is wise enough nor free enough from politics to administer owned businesses in addition to its governing job. The administrative policy of the present Chief Executive is recognized as intensely personal. A superman may be able to carry on his shoulders such a load of administrative detail, but if in addition to it he had also the ultimate responsibility for a wide range of businesses, it is inconceivable that he could carry it. Then, too, the possibility of a change in administration policy toward government owned businesses with every election would work havoc in their efficiency. No administration of any party has failed to agree pretty substantially in practice if not in theory with that famous epigram, "To the victors belong the spoils," which Andrew Jackson put in practice so effectively in 1829. They have not always been as frank as Secretary of State William Jennings Bryan in 1913 when he wrote to Mr. Vick, Receiver General: "Can you let me know what positions you have at your disposal with which to reward deserving Democrats?"

It seems to me that the school of thought which sees a panacea for all economic ills in government ownership by an Olympian state loses sight of the fact that men and women are human. If a nation has a high standard of living, of course it will be subject to periodic depressions. A high standard of living exists only when there is a substantial margin between average family income and necessitous expense for food, roof, and clothing. We spend that margin or not as we choose, and to a very large degree we do spend it when times are good on postponable items—a car, a radio, or any or all of a multitude of desirable items the possession of which characterizes a high standard of living. But when we get scared, and that is easy with universal news distribution, we hold up the trade-in of the new car, we postpone the electric refrigerator, we patch the old roof instead of putting on a new one. Immediately the postponing process begins to cut sales, and production schedules, and eventually employment, and before we know it we are sliding down the declining economic curve. Implicit in a high standard of living is a certain potential instability. In low standard of living countries where people have to spend most of what they make on necessities the fluctuations in the economic curve are not so troublesome. Perhaps government can stop depressions by leveling off the peaks in the economic curve and letting the nation

jolt along on some stable, safe, and uniform low level of living standards year in and year out where the people cannot upset the economic apple cart because they have to spend all they make on necessities which they cannot postpone. I do not believe it, but it seems to me the alternative to an enterprise system. Depressions are bad, but they are implicit in any nation of free men and women who have a margin to spend for postponables and periodically decide not to spend it. If you put it to a popular vote, I suspect that the great majority would prefer the historic cycle rather than a civilization under government ownership, control, and regulation, where their margin for postponables was eliminated and incomes were brought down to the level of necessities.

I have now stated a biological principle and outlined some basic and very human characteristics. In view of the soundness of their application to the determination of the boundary line between government and private enterprise in the field of business, the best generalization I can make is that government should abstain from entering business in the domestic field. I specify the domestic field because if other governments are going to play at foreign trade and we wish to sit in at the game we may be forced to follow the same pattern. At home, government should content itself with writing the "Hoyle" for business. Implicit in that job is the stupendous task of keeping the book of rules adjusted to a rapidly changing world and of enforcing the ordinances. There may be undertakings, like the Panama Canal, which with their international complications have to be built by government. The Port of New York Authority and other public bodies in the same category may have to undertake great public works of an essentially business character. The fact is of course that they are noncompetitive. It may be desirable for the government to run armories to insure a continuous flow of war matériel in peacetime when the epithet of "merchant of death" is all too easily applied to arms manufacturers. But such special cases as these do not impeach the broad principle of government abstention from business.

Right here let me quote a plank adopted at the Democratic Convention of 1932 where Franklin D. Roosevelt was nominated for President. It states unqualifiedly that "we advocate . . . the removal of government from all fields of private enterprise except where necessary to develop public works and natural resources in the common interest."

Is any further comment necessary?

I have now indicated clearly that I do not think the government ought to engage in business, with limited exceptions primarily in the field of public works. I have shown as my basic objection to such

engagements that they violate the sound universal biological principle of checks and balances. I have indicated other reasons why, from the point of view of human characteristics, I believe in such abstention. But my very insistence on the system of checks and balances emphasizes the importance of the activity of government as rule maker, referee, and disciplinarian. Business without the checks and balances of government control might tend to develop into commercial anarchy in these days of complex and interrelated economic forces. The problem here has to do not with the principle of control but with the nature and the degree of such control.

In this evolving world the answers to these questions today are not those of the past, nor of the future. Implicit in the growingly more complex economic world seems to me was an increase of restrictions which government would place upon business. To a businessman it seems as if over these last years the increase in controls both in number and degree has much more than kept pace with the needs of the situation. In this connection I recall sometimes the familiar story of the grandmother whose nerves were often set on edge by the noisy antics of her grandchildren. Her inevitable procedure was to call the nursemaid and say, "Go and see what the children are doing and tell them to *stop!*" Of course, there have been cases of abuses and bad judgment in business, just as there have in government. These are part of the universal manifestations of human nature and not an inherent characteristic of business, as such. I am sorry that the critics of business over these past years have not been guided more by the Biblical precept, "He that is without sin among you, let him cast the first stone." We are all in business of some kind whether we are exchanging our services or our products. In the last analysis, as individuals or as businesses we try to sell what we have in such fashion that there will be a balance of income over expenditure at the end of our fiscal period. Business, especially big business, has been unfortunate in that the principle of the scapegoat is as old as history. There may be emotional relief for an afflicted people in the punishment of the scapegoat, but the victim always suffers castigation far beyond the just deserts of even his imputed derelictions.

Let us now proceed to a study of government regulation and control. When young Abe Lincoln drove his oxcart out of a side lane into the main street of New Salem, no reflecting stop sign made him pause before entering. As he turned and drove toward town, no traffic lights changed from green to red and made him stop at corners for cross traffic. He halted when he could not successfully bluff the other fellow. It worked well. Now, I have never been in New Salem, but I suspect that the country boy of today, whatever be the vehicle that

he drives over the same route, has his freedom of action restricted by these modern mechanical devices. No reasonable person, even in these days of gas rationing and reduced traffic, would deny their importance and desirability when he himself has to drive down Connecticut Avenue. So it is with the principle of government controls on business. It does not seem to me that any reasonable person should deny them their place and their importance even though at times they may curb his individuality and slow him down. Nevertheless we all know towns where there are too many traffic lights, many of them overtimed and not synchronized, and other places where the traffic officers seem, shall I say, sadistic.

I agree then that there must be regulations for business, but planned, installed, and adjusted so that while a state of business anarchy is prevented, the traffic can move with speed and efficiency. To continue the metaphor, I might remark that the magistrates of the traffic courts ought "to make the punishment fit the crime" and not to decree capital punishment for overtime parking. That which was adequate control of business in the age of Abe Lincoln's oxcart would be in many cases inadequate now. I say definitely that there should be regulation of business by government, that it should be adjusted to the needs of the evolving age, and that it should be administered without fear, favor, or exultant vindictiveness. Now this is a complicated problem. These norms are easy to state, but in a world ruled by emotion, not logic, where opinions depend on whose ox is gored, their implementation is not simple. And it is still more difficult to devise regulations because in this evolving world the answers of yesterday do not fit today's problems.

By now I have said enough to give you some glimpse of my fundamental approach to this problem—my philosophy, if it can be called that. Mr. G. K. Chesterton once said that it is more important for a landlady to know the state of her lodger's philosophy than the state of his pocket book. Something of the same might be said of speakers, and you know now that I am not a conscientious objector to any government regulation of business. I view it as necessary and desirable, *if*—and that is an important word—*if* it partakes of the nature not of a hobble but of harness and reins, so that the horse can work.

Perhaps there are some principles of sound control rules for government regulation of business which will help us in judging the mass of such legislation which is now on the statute books and of which a further spate may be imminent. I said legislation, but I might well have included commission rules and direct action on the part of the Administration. The $25,000 net salary ceiling limit is an example of

this last. I quote again from the New York *Times,* this time from an editorial in the issue of October 29, 1942, as follows:

> The idea of a $25,000 ceiling on salaries was first advanced by the C.I.O., later taken up by Mrs. Roosevelt and finally by the President. The new ruling represents a clear example of administrative action to circumvent the will of Congress. The President in two messages to Congress specifically asked for legislation to accomplish this end. The Treasury placed before both tax committees of Congress proposals for accomplishing this end. Both committees of Congress, after due consideration, declined to accept the proposal. In passing the act of October 2, 1942, Congress plainly did not have in mind the grant of any such power. Yet the objective which Congress refused to sanction is now sought by means of a regulation issued under the authority of the President.

I mention this, not because of the dollar importance of the matter, which is not great, but because it shows how regulation may be instituted without the consent of the qualified representatives who are supposed to be responsible for such things.

Now these matters of control and regulation of business are in many respects highly technical, and need an exceptional degree of competence in their devising. The relations of government and business are primarily problems of human characteristics, and not of logic and economic science. In this connection it is interesting to note one paragraph from Speaker Rayburn's "Speech in Defense of Congress" of October 28, 1942, where he says:

> All I ask of you, the people, is to judge your Congress in the light of reason. I beg you to search our record and to search your own minds and hearts. Are not our weaknesses your own weaknesses? How often have we faltered where you have stepped surely? Is not our strength likewise your strength? Has not our progress, our achievement, our understanding, grown much as yours has done?

I find the Speaker's remarks somewhat disconcerting. He is a long-time member of the House, and he knows it well. And he tells us straight out that the people's weaknesses are the weaknesses of Congress. I should have liked to believe that a selected group like the members of Congress were characterized by greater strength and understanding instead of by the same weaknesses as the people.

Recognizing this essentially human aspect of the problem, what can we bring out and define as sound basic principles of control and regulation by which we can test the current mass of rules, and judge of the soundness of future proposals? Before we try to enunciate any such body of principle, suppose we take a year in the life of a business corporation and list the points at which regulation and control impinge upon it during that time. Of course, geographic location and line of activity cause many variations in these regulations, but I have endeavored to offer a reasonably typical list. If I should endeavor to make this tabulation complete, particularly in the light of special wartime restrictions and control, I imagine you would be as fatigued, and I hope as depressed, as is the business executive whose relation to them is real and not academic. They spout from countless federal,

state, and municipal sources. They involve reports and questionnaires and returns and tabulations. They involve oaths, both recorded and unrecorded. They spring at the businessman from the most unexpected ambushes. They consume his sustenance even as did Penelope's suitors in the house of Ulysses. They make him curse the day that the Egyptians invented paper, Christopher Sholes devised the typewriter, and some public servant of remote antiquity conceived of the possibilities of bureaucracy. If government ever does take over business, its paper mills and typewriter factories will have to expand their production enormously.

I am not going to overwhelm you with a complete list of the controls and regulations and demands for information that impinge on a typical, moderate-sized business. Rather I shall try to strain out those sired by the war emergency which we hope may be relaxed or eliminated in the days of peace to come, and divide the more important ones that remain (I started to call them normal) into broad categories to which businesses generally are subjected. It would have been a much easier job to list the activities of business which are not regulated, controlled, or reported upon.

Here then is the tabulation. I shall read the list rapidly and without selective emphasis. I merely ask you to expand the implications of it in your imaginations as I present it.

Federal Taxation:

- Normal income
- Excess profits
- Undistributed profits surtax
- Capital stock tax
- Old age benefits—social security
- Unemployment insurance
- Manufacturer's excise tax
- Floor stock tax
- Unjust enrichment tax
- Individual earnings reports
- Federal audit of tax returns

State Taxation:

- Income tax
- Franchise tax
- "Foreign" (i.e., out of state) corporation tax
- Sales tax
- Vehicle inspection and licenses
- Gross income tax
- Gross receipts tax
- Use tax
- Individual earnings reports (states with income taxes)
- Chain store tax (if multiple unit retail business)
- Gasoline tax

County and Municipal Taxation:

- Real property tax
- Personal property tax
- Privilege license
- School tax
- Railroad siding tax
- Routine inspections (many with fees, such as safety, sanitation, fire, smoke, elevator)

General Corporation Regulation (Federal):

- S.E.C. Reports on—
  - Operations
  - Annual report approval
  - Proxy statement approval
  - Security registration
  - Officer, director, stockholder, stock purchases and sales
  - Holding company regulation
  - Installment sales control

General Corporation Regulation (State):

- Corporation laws covering organization and operation
- Stock issue reports
- Annual meeting reports

Social Regulation (Federal):

- "Antitrust" legislation

- Social security reports
- Social security audits
- Wages and hours regulations
- Robinson-Patman Act regulation (annual and quarterly reports)
- Fair labor practices (Walsh Healy Act)
- Fair trade practices
- Arbitration of labor disputes

Social Regulation (State):

- State department of labor reports
- Workmen's compensation insurance
- Public liability insurance
- Sales tax collections and reports
- Unemployment compensation insurance
- Unemployment compensation separation
- Arbitration of labor disputes
- Occupational disease risks

Quality Regulation:

- Food and Drugs Act
- Quality standards
- Quantity standards

Statistical Information (Federal):

- Many reports incidental to and in addition to tax returns
- Census reports
- Many reports on employment, sales, prices, inventories
- Power usage reports
- Manufacturers' census
- Labor statistics.

Statistical Information (State):

- Reports incidental to and in addition to tax returns
- Labor statistics
- State census

Unclassified:

- Export licenses

This impressive but incomplete list has, I am sure, emphasized the great variety of government influences that impinge upon a business firm from federal, state, and municipal bodies. Broadly, they should be considered not simply as regards their economic effects but from the viewpoint of their social and political consequences. I can do no more here than to generalize briefly. Emotional shibboleths hinder rather than help in arriving at wise solutions, but it would be foolish to deny their very great importance and influence in determining what is put in the book of rules. If logic and experience could be used as guiding principles, it would be worth while for Congress to take the history of regulatory legislation in New Zealand over the past decades, analyze its effects, and try to chart the pitfalls which it exemplifies. In spite of the depressing nature of this austral experience in the light which it sheds on the economic results of socially radical regulation, it is too much to expect that we will profit by it. All too generally, it seems as if the neck of the goose that lays the golden eggs of high living standards has been wrung before the executioner realizes that he can eat the goose roasted only once, whereas egg laying would have been a continuing process if he had been less severe on the bird. But let us continue with our glance at the manual of poultry raising with the aid of which government encourages its flock of geese to lay golden eggs. This analogy of business as a flock of geese laying golden eggs is beginning to irk me, for the goose is supposed to be a foolish bird. In reality, however, it is acknowledged to be a wise bird, as any of you who have tried to shoot one may know. Then, too, I seem to remember that it was a flock of geese that saved Rome at a moment of crisis.

Regulations having to do with employee welfare are of great importance and have accomplished much for the good of both employee and employer. In the early days of nonregulation, those employers whose desire was for enlightened policies for their employees were under a severe handicap in competing with the unscrupulous and greedy type who had no such policies in mind. Regulation which provides for sound improvement and puts all employers on the same basis is desirable. The general principle here is that regulation should be impartial and reasonable. In the coming years, regulation for employee welfare must be looked at in the light of the basic postwar policies, both domestic and international, which this country will adopt. If we are to compete then in world markets, there must be some competitive relationship between our costs of production and those of other nations. I should like to believe that all such problems will be solved promptly after the peace conference by further international conferences at which peace on earth, good will, and forbearance will rule. However, in a world that always has been practical and that evolves but slowly into better things, if we are too idealistic either as regards our own position or as to what we can expect from other nations, we are going to hurt ourselves seriously. If we give freely to our potential competitors of our capital, technical ability, equipment, and bargaining position in order that they may improve the standards of living of their populations, we shall have to make sure that our contributions are used by them for this purpose and not merely to improve their national competitive position in world markets. In short, we are going to have to temper idealism with realism in our government regulations in the domain of employee welfare.

In regulations which affect compensation, it seems to me that government must recognize that rewards for initiative, extra effort, and substantial contribution to progress must be continued as a broad policy. The denial of material rewards to the competent and creative part of civilization under the hypothesis that all men are equal and that these extra amounts should be divided broadly, has always tended to discourage the able from extra effort, and the individual increment after the distribution has been so infinitesimal as to be negligible. Rewards in power in place of material compensation have always proved dangerous. As I have previously said, historically such rewards of power seem to become concentrated in the hands of the few, and the many obey the dictates of their masters, retaining no reserves of power to serve as checks and balances on them.

Regulations regarding labor enter a most controversial field. Emotions are rampant, and any attempt to discuss these problems dis-

passionately seems destined in advance to failure. Regulation that fails to recognize responsibilities and rights on both sides makes a hollow mockery of the democratic process of working out solutions. I am hopeful enough to believe that this principle will be increasingly recognized in the years to come as proposals modifying the existing rules and devising new ones come before our legislative assemblies.

Regulations controlling quality of product have generally been productive of much benefit, especially when founded on competent technical advice. They restrain the greedy and dishonest few, and enable the honest to compete fairly.

In the regulation of business organization, it must be recognized that the business corporation has been, is, and can continue to be an effective instrument of economic and social progress through the co-operative application of capital to business enterprise. Government provision of capital and hence control of business is a poor substitute for the initiative of private enterprise. It is not easy to see what we should have done as a nation in this defense and war juncture if the Army, the Navy, and the Maritime Commission had not been able to call on the plants of the country's corporations to produce matériel.

In the realm of corporate finance, one has to think pretty clearly. Cupidity is an all too universal characteristic of individual humanity. The appeal of something for nothing, of financial returns unwarranted by even the most expansive flights of the imagination, has always tempted people to risk their savings for the sake of an extra large return, even where they knew they should not. In this type of regulation the government is trying to protect the citizen against his own cupidity. Such regulation seems to have lost its sense of proportion. It fails to recognize that all too often the financially incompetent are sure to lose their capital, no matter what the regulations may be, whereas the protective restrictions have grown to be so severe as to handicap the legitimate financing of business enterprise.

Regulation through taxation is a wolf in sheep's clothing. John Marshall realized it when he said in 1819, "The power to tax is the power to destroy." Reforms can be made to look like revenue and their true nature disguised and made to appear plausible in the form of needed additional government income. The undistributed profits tax is a striking example. Another is the capital gains tax, which brings into the Treasury but little revenue, but which effectively discourages the private capitalist from venturing his holdings in new enterprises, many of them undoubtedly of important potential value to the development of the nation. The capital gains tax also adversely affects the mechanism for determining current security values, namely, the stock exchanges, by freezing in the hands of many present owners

holdings that should be potentially liquid. When any regulation for reform is proposed for the statute books, the public ought to know just what it is aimed at. Capital is the solar plexus of the private enterprise system. When reformers direct blows at it in the form of taxation measures, these must be carefully analyzed, so that the legislators and the public will understand the economic effect of such taxation.

The problems of regulation through the dicta of boards and bureaus and commissions are very complicated as these bodies evolve. It seems to be human nature to seek for increases in one's power and scope of activity. The web of the silken cords of their regulations, and some that are not so silky, spreads over business activity in almost every department. The subject is too great for discussion here. It is evident that legislative bodies ought to study such delegations of authority most carefully before granting them, and review increasingly the jobs they are doing.

From my attempts to understand history I have always felt that one of its lessons is that social and political stability are impossible unless a civilization rests on a sound economic basis. I recognize that the social, political, and economic structures are so interwoven that one is taking a liberty to speak of any one as a foundation for the others, and yet the evidence of the great depression points toward the fundamental nature of the economic structure in a nation looked at as a going concern. This world seems to be founded upon an evolutionary principle. The evidence of history is that man's nature changes but slowly. Breasted, the Egyptologist and historian, dates the dawn of conscience as an emerging factor in man's conduct at some five thousand years ago. In these last decades science in the hands of private enterprise has given us great material wealth with which men could work and play—and governments could destroy each other. But man remains pretty much the same even though his magnificent tools and material equipment screen the realities of his nature. His spiritual development and his political institutions have lagged far behind the perfection of his mechanisms. We have heard a good deal lately about the dawning century of the common man. All of us hope that these brave ideals will work out successfully. Nevertheless those who wish to build the new world out of the wreckage of the system of free enterprise, with super government controlling men's lives through making them growingly dependent on it, are going to find that this will not work. The common man, at least in the United States, is going to make his displeasure felt. He knows that in his own trade it takes years to make a craftsman, and that all the theory in the world is a poor substitute for experience when it comes to running a

turret lathe or a locomotive. He recognizes the amateur when he sees him perform.

Government in these modern days and particularly in wartime is apt to try to pave the road to domination of private enterprise and its eventual exclusion from the field of business. Excess of regulation can lead to government's actual engagement in business. The supplying of the necessary capital for private enterprise offers an example of the operation of this process. The regulations for the provision, use, and reward of private capital in business are constantly being increased both in number and in severity. Private capital always has been and always will be apprehensive of its own deterioration. It expects profits at least in some measure commensurate with its risks. It needs constant replenishment from the reservoir of past profits and current savings. It expects some measure of consistency and understanding in the dictated rules under which it operates. To use William Graham Sumner's algebraic terms, when A and B get together and decide what C shall do for D, unless there is some measure of economic foresight in the rules that result, private capital gets timid and hides in stockings, teapots, holes in the ground, and any other refuge that it deems safer. Government then comes forward magnanimously and says that it will provide capital. Not that it has any capital other than what it derives from its people. If the process continues, it has eventually to provide all the capital, and the golden eggs that private enterprise lays are no more. Under the guise of supplanting unwilling private capital, the position of the investor is made progressively more untenable both by further regulation and by income taxation. You economists know that government creates nothing. Its duty is to encourage and to regulate the creation of a common wealth by private enterprise. Its worshippers ascribe omniscience to it, and hope for its omnipotence. You who have studied these things intensively know its limitations. You recognize that unless there exists strong and able private enterprise in a nation there is no adequate basis for taxation. It would be politically inexpedient and impossible to tax a nation of government employees. We can derive but poor consolation from knowing that sooner or later omnipotent and supposedly omniscient governments must fail and out of the ensuing chaos more realistic and practical successors will arise from the ruins. Most people are economic illiterates, to use Frank Vanderlip's expression, but I do not view it as a term of reproach, for all of us are illiterate in that sense except in our special fields. You are economic literates, a chosen few. As educators and advisors, you have large influence both on current thinking and future action in this land of ours. These economic problems are only in part matters of material things and of statistics. Much more

are they problems of psychology, to use an overworked term. I sometimes think that we have too many politicians and statesmen who are master psychologists but know little of basic economics, and too many economists who are masters in their practical and professional fields but know just as little about human emotions and motives. These two funds of knowledge have got to be pooled if we are going to come through the period of postwar adjustment without calamity. I have no doubt whatever but that while the voting population of this country may permit a government to be run by politicians, it is too wise in the fruit of its own experience to let political government completely dominate the business of the country on which its economic welfare depends. There is support for this view in the history of the past weeks.

You have been patient with a businessman's ideas, and I hope that I have given you a reasonably clear picture of his mind. Naturally I do not pretend to speak for business or for businessmen in general. I believe that what I have said about the principle of checks and balances as excluding government from engaging in the field of business but including the power of government to regulate private enterprise is fundamentally sound from any point of view—biological, practical, or political. I rest my case there. In closing, I offer two suggested mottoes, both quotations, to be framed and hung where they will loom large before the eyes of those who legislate and who regulate business. The first is that plank from the Democratic Platform of 1932 adopted at the convention held in Chicago: "We advocate the removal of government from all fields of private enterprise except where necessary to develop public works and natural resources in the common interest." The second is this sentence from Holy Writ in the Book of Proverbs: "Where there is no vision, the people perish."

THE GOVERNMENT'S RESPONSIBILITY FOR FULL EMPLOYMENT

By Alan R. Sweezy
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In discussing the relation of government to business, we must guard against the temptation to lay down general principles, valid for all times and places. The relation is necessarily a changing one, changing with underlying conditions and the nature of the problems to be solved. A hundred years ago the outstanding economic problems in this country were the land and the tariff. At the present moment all other issues are subordinate to the supreme task of organizing the economy for modern war. Certainly no one would maintain that the same principles should govern the relation of government to business in these two situations.

It is likewise impossible to apply automatically the principles of governmental policy appropriate to the rapidly growing economy of the mid-nineteenth century to the peacetime problems of the modern world. This became quite clear during the depression of the thirties. Even those who were opposed "in principle" to any extension of governmental responsibility were forced to admit that continued passivity in the face of mass unemployment and universal insecurity would be suicidal. The principle gave way under the impact of events—events which were not even imagined when the principle was formulated.

This does not mean, of course, that we must discard all of our traditional policies and institutions. Far from it. The problem is to adapt our existing system to fundamental changes in such a way as to preserve its essential virtues. All of us would agree, for instance, that a good economic system should have flexibility and should provide wide scope for the exercise of individual initiative. But we would also agree that it should fully employ available labor and other resources in turning out useful goods and services. The aim of governmental policy must be to insure the latter without sacrificing the former. This can be done if we have the insight and the courage to take the necessary measures.

But although the problem is solvable we must be careful not to underestimate its magnitude. Many who agree that the government must assume responsibility for the maintenance of full employment are not yet aware of the full implications of their position. This is particularly true of those whose thinking is still dominated by business cycle theory. For them the depression of the thirties was simply another cyclical downturn, somewhat more severe than previous de-

pressions but essentially part of the same cyclical pattern. In due time—and in the absence of "disturbing factors"—each depression, according to business cycle theory, is followed by a boom. In the boom, money demand becomes excessive, prices rise, labor and materials are scarce, maladjustments develop which help to bring on the next depression. The government's job is merely to fill in the troughs and level off the peaks. It can do this most effectively by alternating easy money and deficit spending in depression with credit restrictions and debt repayment in prosperity.

This conception of the problem derives little support from the experience of the last twenty years. To begin with, the prosperity of the twenties was not—even in this country—a boom in the traditional sense of the word. There was no strain on productive capacity, the reserve of unemployed workers remained "comfortably" large, prices were actually drifting downward. An attempt to level off a boom of this kind could only help to bring on depression. The depression of the thirties differs even more radically from the traditional cyclical pattern. Income, production, and employment fell to depths that had never been dreamed of before. The natural recovery which everyone kept expecting never materialized. In this country, output and employment were still at semidepressed levels at the end of the decade,[1] in spite of extraordinary efforts to stimulate recovery. Germany had, to be sure, achieved full employment, and incidentally pulled some of the smaller countries up with her, but had done so only as a result of a colossal armament program. Even in England, where there was the nearest approach to "normal" recovery, unemployment remained fairly large. And there were important features of English recovery which were radically unlike the traditional pattern. Interest rates, for instance, instead of rising as they are supposed to, kept on falling. Their continued fall was, in fact, a condition as well as an accompaniment of recovery. Any attempt to apply traditional restrictive credit measures would have been fatal. English recovery was also facilitated by an "abnormal" fiscal setup: a combination of high income and inheritance taxes with substantial social welfare expenditures.

The experience of the last two decades suggests that we are up against something more serious than a continuation of the old-fashioned business cycle. Analysis of the basic forces at work in our economy strengthens this conclusion. For some time now the advanced industrial countries have been suffering from a tendency to accumulate capital more rapidly than they can find profitable outlets for it. The

[1] We can see this clearly now that the war has shown what our productive machine can do when it is operating full blast.

excess, of course, is only potential; something always happens to keep actual accumulation within the bounds set by the available investment opportunities. The surplus may be drained off through the development of economically backward countries; or it may be dried up at the source by depression; or destroyed by war. The first solution is satisfactory as long as opportunities for development are plentiful and the exporting country does not attempt to force capital on the recipients beyond their genuine needs. The export of English capital to this country in the nineteenth century worked by and large to the benefit of both parties. But when new contenders entered the field, as they did around the turn of the century, and the remaining outlets became relatively limited, difficulties and dangers mounted rapidly.

Depression solves the problem of excess capital by impoverishing the community and reducing the amount of saving it is able to do. War absorbs all of the nation's saving while it is going on and also creates a backlog of reconstruction demand which provides an important outlet after it is over.

In the modern world we have had all three "solutions": increasingly desperate efforts to secure new outlets abroad, depression, and war. It is doubtful if foreign investment can, in the future, provide more than a partial and essentially temporary outlet for our excess capital. War, of course, is no solution at all; though in providing temporary relief it is likely to obscure for a time the existence of the underlying problem. Depression, likewise, is a solution only in a technical sense. From a human point of view it is the evil which must be eradicated.

What has been said about "surplus" capital does not in the least imply that the age of scientific wonders is over. From all accounts scientists and technicians are developing new materials, new products, and new methods of production more rapidly than ever before. Introduction of these new developments will, of course, require a large amount of investment expenditure. The point is simply that this expenditure, though large, is quite unlikely to be large enough. In the past, investment in technological innovation was matched by an equal, or perhaps even greater, investment in meeting the requirements of territorial and population growth. The growth factor has been declining in importance and is almost sure to decline still further. Meanwhile our productive power goes on increasing mightily and with it the rate of investment we seek to maintain whenever our resources are fully employed. The excess may be covered over for a time by reconstruction and capital export but is bound to reappear in the not so distant future.

There is a great deal of interest currently in America's role in the postwar world. Many people want to see this country take the lead in the construction of a more workable international order. This is certainly all to the good. But we must realize clearly that the United States cannot possibly be a force for peace and stability in the world unless it is in control of its own economy. A major depression in this country is bound to have profoundly disturbing effects on the rest of the world. Nor will the United States be able to exert a stabilizing influence if it allows itself to become dependent on the export of capital to other countries for the maintenance of its domestic prosperity. As already pointed out, capital export is beneficial only if it is kept within the limits set by the genuine needs of the importing countries. As their own ability to accumulate increases with growing industrialization and rising productivity these countries will have less and less need of help from outside. Capital "surplus" countries like the United States must then be able to reduce their export of capital without disastrous consequences to their own domestic economies.

The basic remedy for a potential excess of capital is an increase in consumption. To use Professor Hansen's apt terminology, we are faced with the necessity of shifting from a "high-saving" to a "high-consumption" economy. We must manage somehow to direct part of the excessive volume of saving we tend to do at a high level of income back to consumption spending and thus prevent its having a depressing effect on income and productive activity. Since the market is unlikely to effect the shift by itself—it uses the easier "solution," depression—the community must undertake to do it through the instrumentality of government.

It may not be immediately apparent that the remedy consists basically in an increase in consumption rather than in investment. We are so used to emphasizing the key role of investment in our analysis of the pure capitalist model that we often make the mistake of thinking some special magic attaches to it. Writers talk about spending on capital goods as "high-powered" spending. Consumption spending, on the other hand, is portrayed as weak, without the mysterious power investment spending has of multiplying itself as it passes into the income stream. This distinction actually is quite unfounded. The important thing is not what the money is spent on but what source it comes from. Saving can be absorbed, or "offset," through additional payments to consumers just as effectively as through the construction of a new railroad or battleship.

In practice a considerable amount of public investment will be necessary in connection with a consumption-increasing program. In

fields such as health, education, and low-cost housing, the government must construct the necessary capital goods in order to make its programs fully effective. There are also certain types of investment, important from the long-run point of view in strengthening the nation's productive power, which require broader planning than private concerns can usually undertake. Soil conservation and the TVA are leading examples. The government's responsibility in these fields is bound to increase as time goes on.

With these important exceptions, investment should, however, be left to the ordinary stimuli of the market. The government, in other words, should not seek to increase investment for its own sake but should rather direct its efforts to increasing consumption to whatever level is necessary to maintain reasonably full employment of our resources.

This brings us to the question as to what form the consumption-increasing program should take. From a purely technical point of view it makes little difference. A flat payment of so many dollars per week or a certain percentage increase in all consumer incomes would do the trick perfectly well. But from a social and political point of view it makes all the difference in the world. A good program should meet the following conditions: (1) it should be directed to satisfying first the most pressing needs of the mass of consumers; (2) it should distribute benefits in accordance with prevailing ideas of justice and equity; (3) it should interfere as little as possible with the functioning of the existing market mechanism.

I hardly need elaborate on the types of government spending which best satisfy these requirements. The various social security programs obviously rank high on the list. Not only do people need assistance with peculiar urgency when they are old or sick or out of a job, but the great majority of their fellow citizens feel that it is right and just that they should have it. There is, moreover, very little interference with the regular workings of the market. The government does not compete with private concerns; the effect on prices and costs is indirect and spread fairly evenly throughout the system; there is no attempt to interfere with managerial decisions. The government does not go beyond its traditional role of tax collector and paymaster.

Judged by these standards, the Beveridge Report, outlining an expanded social security program for England, points in the right direction. It proposes not only to unify and rationalize the existing social insurance and public assistance programs, but, what is more important, to fill the major gaps in the existing system and to raise benefits to an adequate level. The Plan, if adopted, will go a long way

toward eliminating what its author quite rightly calls the "scandal" of extreme poverty in a modern industrial community.

Although the Beveridge Report itself is concerned only with social security, it recognizes fully the importance of other, related measures in a broad scheme for promoting community welfare. It emphasizes, in particular, the need for comprehensive health and rehabilitation services, for more adequate housing, and for wider educational opportunity. It also shows complete awareness of the vital necessity for maintaining reasonably full employment of the nation's resources. Recurrence of prolonged depression and mass unemployment in the postwar world would obviously jeopardize social security and all other welfare programs.

What the Report misses, however, is the fact that an adequate social security program can itself be made into a powerful instrument for combatting depression and unemployment. The Report accepts the traditional fiscal view that the cost of the program is necessarily a burden on the community—a burden which it proposes should be shared by workers, employers, and the Treasury. This conception of the problem is too narrow. In an economy which is suffering from a tendency to underemployment of resources what the Treasury pays out is, if properly financed, a contribution to the national income. As a result of the Treasury's contribution national income is higher, output and employment are greater, and the community in general, not just the recipients of social security benefits, are better off.

In this country there has been so much talk in recent years about health, housing, education, and social security that we might easily think a great deal had already been accomplished. We might even think there was relatively little left to do and that, as a result, we would have to discover entirely new fields of activity for the future. Actually, very little has been done so far. The housing, health, educational, cultural, and even social security programs had scarcely got beyond the discussion stage when the nation had to turn its attention to preparing against the growing threat of war. At the end of the thirties both the health insurance and the expanded public health programs recommended by the President's Committee had been tabled for later consideration. The same was true of proposals for federal aid to education. The housing program was limited to a few hundred million dollars in a field where billions are needed. Within the WPA, promising theater, art, and recreation programs had begun to develop. But the attacks of hostile critics were so powerful that these programs, far from being encouraged and expanded, had either been eliminated or greatly curtailed by the end of the decade.

Our social security system had developed an impressive admin-

istrative machinery. It had also done a big job of collecting taxes on pay rolls. But it had scarcely started on the really important part of a social security system; namely, the payment of benefits. Instead of making a net contribution to consumer incomes and consumer spending, it had actually decreased them. Any future program to maintain income and employment at reasonably high levels will have to start with a thorough-going revision of the existing social security system. Here we can profitably take a leaf from the English book. Their present system, and to an even greater extent the enlarged system proposed in the Beveridge report, relies on the Treasury for a substantial part of the money which is paid out in benefits. Through the Treasury's contribution the system can be made into a powerful instrument for increasing consumer spending and thus maintaining productive activity at an adequate level.

At the present time our outlook on the future is clouded by uncertainty. We have no way of knowing how long the war will last, how great the destruction will be, what social and political complexion large parts of the world will have when it is over. Add to this the normal uncertainty of private investment expenditure and it may seem futile to try to make plans or define responsibilities for the future. And so it would be to try to plan in any detail. But, in spite of all the uncertainty, we can be fairly sure of the underlying trend of development in our economy. Thus, while questions of timing and amount must be left to the future, we can outline now certain general policies which will enable us to cope successfully with the detailed problems as they arise. In particular, I would suggest that:

1. We keep most of our wartime income and profit taxes after the war is over. The victory tax should, of course, be abolished and the personal exemptions raised to their prewar levels. Certain other minor changes ought perhaps also to be made. But in general the rates on corporate profits and on personal incomes should be retained at their present levels.

The war has shown how incomes rise when our economy approaches capacity operation. Corporate profits before taxes, for instance, were approximately 15 billion dollars in 1942 as compared with a little over 5 billion dollars in the best of the prewar years. Even after provision for extraordinary war taxes, the 1942 figure is roughly 7 billion dollars. If we ever did succeed in having full employment in peacetime, profits would probably be fully as large as they are now. Past experience suggests that we would have plenty of difficulty in handling 7 billion dollars, let alone 15 billion dollars.

Salary, wage, and proprietorship incomes have also increased tremendously with the rise in employment and production. The rise has

been particularly great in the middle and lower middle incomes—incomes, that is, which are large enough to allow a sizable margin for saving. Retention of present tax rates should, if combined with a comprehensive and adequate social security system, go a long way toward reducing such saving to manageable proportions.

2. We should revise our present social security system as suggested above. We should also set up housing, health, educational, conservation, and other programs in such a way that they can be expanded as the stimulus provided by reconstruction and reconversion wears off.

3. Although taxation should constitute the financial backbone of the long-run program, borrowing should be retained as a supplementary instrument. Borrowing absorbs saving without the danger of reducing consumption; it works through existing financial machinery; it is extremely flexible. These are substantial merits which cannot be overlooked in formulating a financial plan.

4. Certain flexible spending programs, viz., expanded public works and work relief, should be held in readiness to supplement the long-run programs in periods of unusually depressed private investment. The long-run program is designed to raise the general level of income and employment, not to iron out fluctuations. The latter can be handled by the methods familiar to us from the experience of the thirties.

5. Direct controls which we have developed during the war—price control, production control, allocation of materials, rationing, etc.—should be kept in reserve for use in emergencies. It may be necessary, for instance, to continue price control for a while after the war is over. Some degree of planning and supervision may also be needed in reconverting industry to peacetime production. But I have a great deal of faith in the ability of the market mechanism to function adequately without detailed supervision. Except for war, our problem in the modern world is not production but demand. If we take the steps necessary to insure adequate demand—I admit this is a big if—I am confident that production will respond without a great deal of government regulation or control.

GOVERNMENT FUNCTION IN A STABILIZED NATIONAL ECONOMY

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I. *Premises*

Attempt is made in this paper to explore certain fundamental relationships between economic activity carried on by one or more branches of the government and economic activities carried on by nongovernmental organizations and by individuals. Except incidentally, the objective is to examine the basic problems rather than problems merely incidental to readjustment when hostilities cease.

Certain premises are accepted in this paper and are briefly stated:

First: That every government, and particularly every democratic government, will be under an impulsion to attempt to provide for the economic needs of substantially all its people;

Second: That the method will be an attempt to assure substantially general opportunity for useful work at adequate pay, accompanied by social security provision for the nonproductive periods of life, including childhood, maternity, sickness, and old age;

Third: That whenever any substantial gap appears in the generality of the provision achieved, government will be under pressure to fill that gap through direct entry into economic activity heretofore commonly carried on by nongovernmental agencies;

Fourth: That economic readjustments in large countries may be presumed to create problems of such magnitude that purely private activity cannot provide for them.

To these I should like to add a postulate about government finance which I think can be generally accepted. This is, in substance, that neither government expenditure nor government debt entails inflation any more than does private expenditure and private debt, *provided* expenditure and debt are so handled as to maintain a relatively constant relation between the monetary system and the available goods and services. In other words, the mere fact that government plays a part in the field of economic stabilization and that such part entails the use of government finance, does not threaten inflation so long as it is so handled that it increases rather than decreases the productive assets of the country and the productivity of the assets already in existence.

The writer states the foregoing premises, in the belief that they can now be accepted as a part of the datum of economic thinking.

Until recently, acceptance by the state of the obligations implied in these premises was primarily a political issue. In the agricultural era,

proposal that the state should attempt assurance of the economic welfare of its people by direct entry into the economic field was matter of acute debate between politicians, publicists, economists, and philanthropists. But with the evolution of modern industrial technique, including large-scale production, creation of large-scale business enterprises, rapid relative decline of small business, and increasing lack of "automatic" economic equilibria, the government in one or another aspect has been forced into the economic field.

This impulsion can be stated, according to one's choice, in terms of politics, of social ethics, of military necessity, or of philosophic definition of statehood. But, save for a lingering nostalgic remnant, it has ceased to be a matter of partisan politics. The problem now is the degree to which government action is taken, the limits on such action, the methods to be used, and the instrumentalities to be selected; and these, no doubt, will be fields of debate for a considerable period of time to come.

Let us state the proposition as a matter of elementary politics.

In the depression of 1921, following the first World War, economic factors beyond the control of any individual businessman, enterpriser, worker, or farmer, forced out of employment a number of workers roughly estimated at five millions. The pressures on the American Government were considerable, but not sufficient to require general measures. Nevertheless, in various branches of government, especially state and local, necessity was felt to assure a minimum subsistence through the various channels of relief, and through measures designed to promote re-employment.

In 1929, when a new depression, likewise beyond the control of any individual or group of individuals or any set of private enterprises, resulted in the dislocation of a group of workers loosely estimated at eleven million, to which must be added the distress of farming communities aggregating not less than four or five million more active workers, the then government attempted to deal with the situation without direct entry into the field. Local governments, of course, were forced into the task of relief, and a number of them in one way or another attempted direct re-employment; and the government itself attempted provision through programs of "share the work" and through indirect programs of encouraging large business to undertake programs of expansion offering the hope of re-employment. These measures proved insufficient and the political and governmental pressures resulting made it inevitable that there should be a major change in the situation. In result, in 1933 the federal government assumed responsibility and undertook the task of gradually providing for the economic welfare of substantially every American. Failure to do so would, in my judgment,

inevitably have resulted in even greater political pressure. In retrospect, it is sufficiently plain that this pressure would have been applied quite irrespective of the party affiliations or ideology of the administration.

The readjustment following the present World War will be far larger than the readjustments required in 1933. Provision will have to be made for a minimum of five million soldiers returning from war; and the figure is likely to be considerably larger. A fair estimate would probably be in the vicinity of nine million. Of these the youngest age groups will be persons who never held jobs before their entry into the army.

In addition, under present forecasts, perhaps twenty-five million workers will have been absorbed into war industry. These will have to be replaced in peacetime industry. Included in this figure will be not less than five million individuals not heretofore engaged in regular labor; that is, individuals who have not heretofore appeared in "pay rolls" though they were engaged in useful activity in homes or on farms. Experience makes it sufficiently plain that many men and women who have acquired jobs do not in general leave them, except to seek new jobs; the housewife who has become a factory or white collar worker resists being relegated to the standpoint of a houseworker again; and so forth.

In the aggregate, therefore, immediate postwar readjustment will have to take care of the enormous total of perhaps thirty-four million individuals; and this total will include at least five million new workers drawn into war work, plus not less than two million youngsters who have never been at work but have gone directly from their homes into the army.

It is hardly necessary to observe that any government, and particularly any democratic government, will promptly be under pressure to deal with this situation unless the readjustment is immediate, automatic, and complete. Since even without the disturbance of war such adjustments have not been historically immediate and economic, and rarely are complete, the political impulsion which will bear on any government in power is sufficiently plain.

As far as I am able to observe, nothing on the economic horizon suggests that this type of pressure will be limited to postwar readjustment—though undeniably it would be more acute in the immediate postwar era than at other times. Normal peacetime cyclical swings have produced readjustments equally great; and indeed there is a widely supported theory that readjustment after war is followed a decade or so later by a great cyclical readjustment. Further, readjustments occurring after a war, great as they are, do have certain factors making for swift recovery, such as backed up unsatisfied civilian demand, the

existence of savings available for expenditure, and the like. Cyclical fluctuations in peacetime do not have these offsetting factors to the same degree.

It would seem that there are factors of disequilibrium latent in recent economic developments which, except as they are compensated in some way, will increase rather than decrease the disequilibria with which we have become familiar in the past forty years. Three such factors are worth particular notice:

1. The factor of increased machine productivity. Since the depression of 1929, and peculiarly under the pressures of the present World War, the effectiveness of machine production has vastly increased. Specifically, it is possible to get a greatly increased percentage of product per man hour of labor; the necessity for swift production of war material has enforced the development of this efficiency, and the technique, once learned, will plainly not be abandoned when the stress of war is past. Much the same process has gone on in agriculture through the development of better agricultural techniques and, within limits, the application of machines to farm problems so that a considerable part of farming is more nearly assimilable to industrial life than has been the case heretofore.

2. The relative growth of the influence of large or quasi-monopolistic business at the expense of small business. The effect of war has been to accelerate a trend plainly observable in the decade from 1920 to 1930. The causes of it are well known: they include a tax structure which in the main makes expansion of existing small businesses difficult; the necessity for securing latent production and the consequent expansion of large plants with existing organizations rather than building up of new or smaller plants in respect of which the organization had to be created.

Probably most important is the effect of selective service, which has taken from small business a great number of young, strong men, from age eighteen to age forty, and thereby broken up the organizations which these businesses actually had, since small enterprises cannot fill in and replace with the same effectiveness as large organizations.

The rise of these businesses underlines the proposition laid down several years ago by Dr. Gardiner C. Means; namely, that in an economy dominated by large-scale businesses, prices remain substantially rigid; and thereby the automatic adjustment of supply to demand is hampered, if indeed it is not prevented.

3. The constant increase in technical development whereby industries may be superseded by other industries, as highway truck traffic tends to supersede certain elements in railway traffic; as air transport

may supersede certain elements of land and sea transport; as radio communications may tend to supersede wire communications.

Under these circumstances, the problem of postwar readjustment is in a sense merely a huge and rather distorted version of the kind of problem with which every modern national economy is likely to be faced, in varying degree, from time to time. The political pressures in any given instance will vary with the size of the problem; but the nature and the direction of the pressure will be constant since the magnitudes will be too great to be dealt with privately. Since substantially every government in the world has accepted the responsibility of attempting to stabilize and improve its national economy, we must, I think, assume that the government is in this picture to stay, and the main problem is to explore the optimum lines of its action.

II. *The Scope of Choice of Government Action*

Attempts by government to support, stabilize, and improve the national economic position are not new in history. There are ample chronicles of attempts made during the Roman Empire, notably under the Emperor Claudius; they form a consistent body of history on the Continent of Europe; they appear intermittently in British history from the days of Queen Elizabeth on. A notable chapter indeed is the expedients adopted by the British Government from 1820 to 1840, following the Napoleonic Wars. But the methods vary widely.

Today, there may be the extreme policy of "hands off" by the government, representing a complete denial of the pressures altogether. This is now theoretical only: no major government operates in this way. At the extreme opposite of the spectrum is the assumption by the state of complete responsibility for everyone everywhere all the time, accompanied by a complete system of state operation in all fields: the theory presently adopted by the Soviet Republic.

Between these extremes there is a multitude of choice. The state may intervene indirectly, and may attempt to build a system of tariffs designed to increase industrial activity and employment by preventing external competition. It may, still through indirection, endeavor to influence nongovernmental activity by cheapening credit: the familiar operations of reserve banks and bankers during the first thirty years of this century. Approaching the field of direct intervention the government may subsidize certain desired lines of activity; still more directly it may attempt to maintain prices, thereby assisting certain groups within the community. More directly still, it may enter upon public works programs, thus approaching direct entry into the economic field; and the widening scope of works defined as "public" increases the degree of

direct state participation. Finally, there is direct participation through the operation of doles, bonuses, and the like.

Actually, in the United States today, there is (and has been for several decades) a vast combination of direct and indirect participation in economic life the true extent of which, I think, has never been adequately appraised by economists. Much of the operation of our combined system of tariffs, taxation, public works, relief, etc., has in effect constituted a series of subsidies, usually indirect, to one or another class of enterprise—a theme not here elaborated.[1]

But in the choice of method, an element enters which turns on political theory. I believe the basis of this choice must now be discussed by economists, since it suggests that economics as a technical subject can now no longer be divorced from the scientific study of governmental theory.

The consideration which is dominant in making this choice is the extent to which governmental theory, backed by the prevailing philosophy of a country, seeks to preserve free choice by individuals of their way of life. This consideration is vital. Employment was full, complete, and continuous in slave-holding civilizations, for slaves by hypothesis are always more or less employed. A totalitarian state, in theory at least, arrives at full employment by methods only slightly less direct. The leader of the Nazi Labor Front, Robert Ley, in a confidential discourse in Prague shortly after the fall of France, stated quite brutally that the German Government proposed to introduce a new form of slavery, and he was not speaking metaphorically. He meant exactly that. A free and democratic government will seek full employment, but only under conditions which give the maximum possible choice of life to the individuals composing its state; and its direct entry into the economic field will always be restrained by this consideration.

For that reason, and historically, free governments, as they have obeyed the impulsion to enter the economic field and to provide full employment and activity for their people, have sought, in order:

1. Methods by which the individual was assisted to enter new fields of production: for instance, the land grant policy followed after the American Revolution, and in economic crises during the nineteenth century.

2. Indirect encouragements to provide enterprise in the hope that this stimulation would provide the necessary activity and employment: tariffs, indirect subsidies, temporary monopoly, such as patent rights, and the like. This intervention, forecast in Hamilton's report on manu-

[1] For further discussion of this, reference is made to the writer's memorandum to the Temporary National Economic Committee, August 19, 1938.

factures, was the norm during the latter part of the nineteenth century and through to 1930.

3. Direct intervention in the economic field, but oriented toward private individual and enterprise, and carried out through direct financial assistance. This was the policy to which President Hoover's government was eventually driven when the Reconstruction Finance Corporation was formed, when the Federal Reserve banks were empowered to make direct loans to industry, and when a program of railroad aid was commenced.

4. Direct entry into economic fields, limited, however, strictly to nonprofit or nonprivate operations, such as conventional public works (roads, bridges, public buildings, and so forth), with which must also be bracketed low rent, public-assisted housing, and certain other similar operations in fields which for one reason or another private activity was unable or unwilling to occupy.

5. Direct intervention in direct production in certain fields in which government is able to work, but in which private enterprise is also able to work, for the purpose, largely, of assuring that the work shall be done and the production made available at times and under circumstances in which for one reason or another (perhaps temporary), private activity is unable or unwilling to advance.

This is, roughly, the spectrum of possible activity in a government dedicated to preserving the widest possible scope of individual choice of life. The degree to which a state is forced to emphasize any one of these elements against the other turns on the degree of impulsion—the pressures behind it. As pressures increase, governments will be driven to abandon the indirect and enter the direct fields.

There has been controversy at every point in both indirect and direct intervention of government in economics; but the controversies have invariably come to a single end. To the extent that there was need or impulsion, every government, irrespective of its political philosophy, has been forced to move in the direction of meeting the impulsion. The controversy indeed has tended to increase rather than to reduce the impulsion. For when private interests seek to resist the government entry into the field, they are likely to discourage both themselves and their associates from alleviating the situation which forces the government to act; and to the extent that this increases distress, they put greater rather than less pressure upon the government to act.

The great contribution, it seems to me, which economists can render is to reduce the area of this classic controversy, if not indeed to eliminate it altogether. Clear economic thinking in these situations should make it plain that the area of interest between private enterprise

and government is vastly greater than any minor area of conflict. Certainly, when the impulsion is as great as that which will be on us after the present World War, a failure to meet the situation is far more likely to destroy alike private enterprise and the chance of individuals to enjoy free choice of life. With the relatively minor adjustments and readjustments which had to be made up to 1921, governments could weather a period of distress. Impulsions as great as those of the depression of 1929 forced a considerable change in theory. The hydraulic impact of the pressures which will exist after the World War, if they are not met by common action, may produce reactions so great as to force direct intervention in many if not all fields.

This was the experience of most governments in Europe following the first World War. It led directly to change not only of governments (which might be merely political) but also to a change of the economic theory on which governments were based, respectively in Italy, Germany, and many of the Balkan countries, and very considerably shifted the area of British governmental action. In most of these cases the violence of the result was due to an attempt by certain interests to resist the impulsion and the measures towards which the government was forced, instead of an endeavor to work out the situation by taking account of all of the elements and endeavoring to assign to them different spheres of action, or to effect a frank co-operation so that the impulsions might be accurately and definitely met.

III. *Enlarged Basis of Economic Theory*

We must digress for a moment to make certain observations which go perhaps to the very root of economic theory.

Most of economic theory is based on premises which are assumptions as to what individuals will do. These assumptions are derived from observation and historical experience.

Gresham's Law, for instance, is based on an assumption as to what individuals will do when they are faced with a choice between hard money and soft money; between currency which is cheap and likely to get cheaper, and currency which is valuable and likely to remain so.

Much, and perhaps most, of Lord Keynes's study of monetary theory is based upon assumptions as to when individuals will save money, when they will invest money, and when they will spend it.

Many of the economic postulates underlying central banking theory are based on the assumption that individuals will direct their capital towards the area of highest rate; and that businessmen will borrow money for productive purposes when interest rates are low.

Much of the reasoning relating to the ratio between price and production is based on the assumption that individuals will buy more widely

when the price falls. Illustrations could be multiplied, and they are found at the root of almost every branch of economic theory.

Classically, these assumptions are based on the behavior and habits of individuals, since the original reasoning was done by economists who lived under conditions in which both enterprisers and consumers were individuals; and they reasoned from a state of affairs which was normal to them and has been considered normal in subsequent economic thinking.

I think an epoch-making change in the basis of economic theory was made a few years ago, when Dr. Gardiner C. Means, after a meticulous examination of the field, demonstrated statistically that the behavior of certain aggregate nongovernmental units, especially corporations and large-scale productive units, was radically different from the assumptions made as to individuals. In his justly famous study of price rigidities, he pointed out that when effective demand was weak, prices tended to fall, whereupon individuals bought more freely, the demand thus increased, and once more tended to balance production. But, he pointed out that large-scale production, particularly the large corporate units, did not behave in this way at all. When prices tended to fall, price behavior was quite different. The price was maintained and remained the same; but produce fell, with consequent increase of unemployment. The phenomena he assumed were so widespread as to justify the assumption that aggregate units in this respect at least had a norm of behavior which had to be taken into account. By consequence, economic theory now had to enlarge its base. It had to include assumptions as to the behavior of individuals under given economic conditions; but it also had to include assumptions as to what large-scale nongovernmental economic units would do, and to reckon with the fact that large-scale economic units have habits of action of their own.

I submit that economic thinking now has to reckon with a third extension. It must take into account as a basic premise the fact that governments likewise are under impulsion; and that in certain great fields, it may be taken for granted that governments also will enter the field, more or less irrespective of local or partisan or party differences.

In brief, the impulsion upon a government to enter the field and tend to stabilize or increase employment, or to stabilize or increase certain sorts of prices (such as farm prices) in respect of which considerations apply which closely approximate those applying to wages and employment, is as constant and as likely to occur as the impulsion on a merchandiser to buy in the cheapest market and sell in the dearest.

No doubt, as experience progresses and as economic history improves, we shall be able to locate and define other impulsions to governmental

action, equally constant, which may then become postulates on which the increased scope of economic reasoning may be based.

But in dealing with an enlarged base of economic theory occasioned by habits of government, we are faced with a rather more complicated set of phenomena than usually exist when there is an endeavor to estimate the habits of individuals. An individual is commonly faced merely with a single choice: to buy or not to buy; to save or not to save; to sell or to withhold from the market; and so forth. But a government may be in a position to exercise any one of a number of choices. Further, it may obey the impulsion under which it acts in any one of several ways. At this point the economist is obliged to work closely with the political scientist, whose task it is to study and evaluate the philosophical and historical bases of governmental action, the institutions by which such action is carried out, and the degree of success or failure of such institutions in that regard. A communist government is under the same impulsion to take care of its people as is a democratic government; but it will act in one fashion, whereas a democratic government, obeying the same impulsion, will work out the problem through an entirely different set of institutions. A communist government may substantially eliminate the factor of individual behavior or of nongovernmental aggregate behavior, as, for instance, that of large corporations. A highly individualist government may endeavor to eliminate direct governmental action, and substitute indirect governmental action, as long as indirect action appears to meet the essential impulsion. But both the communist and the individualist governments will be driven to pursue a course of action which eventually meets the underlying and essential need.

IV. *A New Theory of the Division of Powers*

Since we have now been forced to call in the political scientist, it is appropriate to note that the problem with which we deal (namely, that of combining liberty of the individual and free choice of life, on the one hand, with reasonably full provision of opportunity for economic life through productive activity, on the other) is merely a new form of an old story. The political scientist has dealt with it before, and he can be of help.

In agricultural civilizations, the threat to individual choice of life arose largely from the combination of all forms of governmental power in a single hand. Governments so organized that the executive was also the judge, and his fiat was law, directly threatened human liberty. An important part of the French Revolution stemmed directly from the Physiocrats, who fought for the institution of private, individual prop-

erty, because without it the individual was so completely in the hands of the state that he had no independent choice of life. In the British system, a somewhat similar factor had been pounded out through the long history from Magna Carta to the American Declaration of Independence, as law guarded private property, and governmental institutions were set up which made the protection valid.

Both British and French political scientists, notably Montesquieu in France and Jeremy Bentham in Britain, formalized the doctrine of what is called "division of powers." By more or less rigidly separating the executive from the legislative and the legislative from the judicial, they considered that those individual rights which a man had could be protected from arbitrary action, that there would in that case be "a government of laws and not of men."

Perhaps we can call on this line of doctrine to assist us in organizing the newer forms of economic activity into which most governments will be driven, in greater or less degree, by the impulsions we have noted.

I believe that there can be a fourth branch of government—a branch devoted towards carrying out, under the law, those direct interventions into economics which must be undertaken in times of readjustments or of great pressure. It may well be that a system, divorced from direct connection with other forms of government, can be worked out offering the greatest degree of adjustment between direct intervention of government and free individual choice of life.

We have seen such operations in other countries. The great cooperatives in Sweden have effected just such an operation. Sufficiently adequate decentralization in the United States has produced similar phenomena: the remarkable success of the Tennessee Valley Authority, once a bone of contention, but now by general consent one of the most successful operations of its kind, offers another example. Use may be made of local governments where they have demonstrated their efficiency and integrity. In certain great nonprofit fields, including hospitals, a very considerable degree of adjustment has been made. It should be possible, if sufficient care be taken in constructing institutions, to make possible that direct intervention in economic activity which may be required at any given time to stabilize and improve economic conditions, without thereby impairing anyone's liberty of choice. Perhaps it is not too much even to hope that enlightened private enterprise will be drawn to see that this sort of activity is as vital to their economic life as it is to the political life of the state. It is, in fact, the only possible insurance against the cataclysmic movements which have eliminated liberty and individual enterprise alike on the Continent of Europe.

V. *Conclusion*

In the foregoing paper we have sought to examine certain fundamental and underlying considerations as they relate to government and private enterprise.

We have seen that the modern state is under an irresistible pressure to assure opportunity for economic activity substantially to all of its able-bodied citizens.

We have indicated that, properly directed into productive fields, it should be possible to achieve this without serious danger of monetary disturbance.

It would appear that historically governments have been driven from indirect intervention in economics to direct intervention, as the size and scope of economic readjustment has overpassed the limits either of automatic adjustment to equilibrium, or of private ability to cope with it. There remains the problem of adjusting the economic activity to which a government will be forced to a system of free choice of life which must necessarily include a great area of free enterprise.

It has been suggested that the best method of doing this is by the separation, through decentralization or other institutional means, of direct economic activity from the purely political activity of governments.

It is to be hoped that if agreement on principle can be reached, we may see an end of the long conflict between what are usually called private interests and governmental interests, since, as the shape of the future emerges, disaster to one means disaster to both. Success to either must be conditioned upon the success which is shared by all.

DISCUSSION

Charles C. Abbott: The first point I want to make is that in my opinion this has been a rather remarkable session, not only because of the high quality of the addresses, but also because of the breadth of views and the differences among the approaches used by the speakers in analyzing the economic claims of government and private enterprise.

I have been forcibly struck by the fact that all three speakers have indicated, either implicity or explicitly in their remarks, that in the discussion of the relations of business and government both economic and political factors must be considered. Their remarks seem to me clear evidence that Political Economy—with the accent evenly distributed between the two parts of the term—is the proper discipline to be employed in this field, and that this study is now returning to popular favor. I am doubtful if fifteen years ago three speakers at the annual meeting of the American Economic Association, speaking on what would probably have then been called "government regulation of industry," would have left this impression with me. To phrase my thought another way, I think the speakers have all recognized, at least implicitly, that governmental and business organizations are in fact engaged in a joint undertaking, in the production and distribution of the goods and services, and, I would add, the provision of conditions, necessary for the healthy existence of society. I include in the term conditions the provision of more than sufficient employment opportunities to ensure stability in the community.

All three speakers also recognize, I believe, that the relationship of government and business is one of continuous change. In my opinion the activities of governmental bodies form a part of the environment within which the business process takes place—just as the available labor supply, the extent of the market and the state of technology form part of the businessman's environment—and this fact of change means that the businessman is subject to a continuously changing situation, to which he must adapt himself. If he fails to adapt, he loses ground or disappears. Conversely, the continually changing pattern of economic forces and of forms of business organization presents to the public official a never-ending series of new problems with which he must deal.

In other respects the approaches of the three speakers to the problem of the relations of government and business differ markedly. Mr. Barker uses a biological approach: he views business firms and governmental bodies as organisms, and he has emphasized the problem of how much interference with its routines an organism can endure without disintegrating. Mr. Sweezy centers his discussion on the problem of full employment of resources and the mechanisms available to the federal government when it adds responsibility for full employment to its traditional functions. Mr. Berle, as befits a distinguished public servant, deals with broad problems of policy which he foresees in what we hope will not be a very distant future. I find it difficult to believe, however, that the molders of public policy the last ten years have been, to the extent that Mr. Berle has indicated, mere agents of forces that were beyond their control.

At this point I may say that full employment has always seemed to me as much a political as an economic problem. Americans are accustomed to certain freedoms—freedom to choose their occupations, to live where they will, to spend their incomes as they want, and to save as much or as little of their incomes as they wish. If the public is willing, in a political sense, to forego these freedoms, I do not believe that full employment of resources is in any way a difficult goal to achieve. I should also like to say at this point that I believe that in the postwar period economists and businessmen in this country will be at least as much concerned with the rebuilding of this country, the replacement of worn out and obsolete capital goods, and the reconstruction of devastated territories, as they will be with the provision of jobs as an end in itself.

I myself have considerable doubts whether abstract business and government—business with a capital "B" and government with a capital "G"—are, in the language of the exact scientists, the size of organisms which it is useful to examine. Business with a capital "B" and government with a capital "G" have always seemed to me both too big and too intangible to be subject to profitable analysis. There are some five thousand political subdivisions in this country, and many more governmental agencies, and perhaps five million business concerns. The relations of business and government which in fact exist and which can be studied are those established under a particular set of circumstances between one specific business concern—or a limited group of concerns—and one, or perhaps two or three, particular governmental agencies. For example, the Department of Justice brings a proceeding under the Sherman Act against this company, or that company disputes with the Bureau of Internal Revenue concerning its tax bill, or the Securities and Exchange Commission undertakes to enforce the "death penalty" clause against the public utility holding companies. These are the relations of business and government which in fact exist. I do not understand how the relations of business and government *in general* can be analyzed.

Business concerns and governmental bodies are both organizations, and as such have the characteristics of organizations; they have purposes, they are composed of persons, they are effective depending upon whether they are well or badly administered, etc. In some respects the organizational characteristics of governmental bodies and business concerns of course differ—in their purposes, in their legal bases, in their responsibilities, in the motives activating the persons composing them, and in other ways. Mr. Barker has discussed some of these differences. I do not agree with all of his remarks. I am not sure it can be demonstrated that governmental organizations are greater offenders than business organizations in permitting advancement to be based upon friendships and connections rather than on ability, or that responsibility in public business is less clear cut than in private business, or that public business is more prone than private to eliminate competition. The vices and deficiencies of organizations can be found in both public and private bodies.

But it is essential in appraising the relations of governmental bodies and

business concerns to consider the organizational differences of the two types of bodies and the different—at times very different—operational methods characteristic of each. In attempting to understand or forecast human behavior it is usually unreasonable to assume that human beings will act differently from the way human beings generally do act, and in attempting to understand or forecast the actions of an organization made up of human beings, it is usually unreasonable to assume that the organization will act differently from the way it commonly does.

Useful appraisal of projected governmental or business policies, and a number of actual and projected governmental policies which have been mentioned cannot be made except in terms of the organizations involved, both in terms of the organizations enforcing the policy and the organizations subject to the policy.

A policy, to be made effective, must be implemented; implementation requires an organization; an organization, which is basically a group of persons, requires administration. In the last analysis, administration is the process of accomplishing a policy by using persons, much as an engineer accomplishes something by using engines or a publicity agent by using the written word or the radio broadcast. But there are limits to the effective implementation of policies, even of governmental policies; there are limits to effective governmental action, as I have heard Mr. Berle say before now. For instance: the organizations acted upon, as I have noted earlier, adapt themselves to the changing environment; governmental administration is not always perfect; the ascertainment of the facts necessary for the implementation of policy is not always easy; the sheer fact of geographical space creates difficulties of administration; infringements of interests are sometimes too subtle to be reached by law. This list of the effective limits to the implementation of policies could be considerably extended.

An ineffective policy, either of a governmental or a business body, serves only to increase the confusion in society, as has been amply demonstrated in this country during the last twelve months. In appraising the relations of business and government and the merits of their respective claims, I am sure that these considerations which relate to possible types of organization, feasible kinds of administration, and the likelihood that policies can be implemented, are at least as significant as the theoretical justifications more commonly emphasized.

Myron J. Spencer: Certainly it will be impossible in the limited time at hand to make a thorough analysis of Mr. Barker's paper. The so-called "business point of view" on social questions is such that adequate commentary would command a large tract devoted to definitional matters and the desiderata of terminological rigor. But be all that as it may, I shall attempt to discuss and to supplement Mr. Barker's thesis by topical compression—a technique which I hope will do him no injustice.

Our starting point is the "profit motive" as it relates to the personnel of both the private firm and the governmental machine. Mr. Barker feels that a differential exists as between government and private enterprise in the

quality of the human equipment employed; and, intimately related, is his opinion that government operation of any business is bound to be less efficient than private operation. On this issue of efficiency one might engage in considerable debate, if only to arrive at some reasonable breakdown of means and ends. To my way of thinking, however, the controversy would be patently futile inasmuch as a survey of the government-private enterprise frontier must be predicated, not on the operative aspects of either the firm (whatever its product) or the government bureau, but on the far more basic problem of social ethics. The boundary line which separates privately operated units from governmentally operated units has an ethical rather than a technical reference; and the movement of this boundary line one way or the other is an ethical problem of the greatest magnitude. Contrarily, were our military machine to be placed in the hands of Mr. Barker or Mr. Berle or the President of the American Economic Association, we should face obvious catastrophe; for here the dominant consideration is one of operative or technical efficiency. The ends to be achieved are given; there is no question, whatever, of a conflict of interests either in the choice of ends or in the service of them. Where, however, individuals attempt to make known a variety of ends, each individual using his power, such as it may be, in the markets of the world, there is the very real social problem, not of efficiency, but of freedom.

These considerations, which I leave pro tempore, constitute the fabric of all social thought; and it is certainly no derogation to say that the eye of the businessman or engineer is congenitally blind to them. And, correlatively, we might extend to all those who are concerned with the operative efficiency of particular establishments as cordial an invitation to climb the academic hill and survey the communal confusion below as Mr. Barker extended to us to enter a business and meet a pay roll.

As for the problem of depression, Mr. Barker submits that "implicit in a high standard of living is a certain potential instability." In this statement, of course, there lies considerable truth; nevertheless, (1) that government action can result only in "leveling off the peaks" and reducing the standard of living, (2) that government attempts at stabilization are alternative to an "enterprise system," and (3) that "depressions are implicit in any nation of free men and women" who do not always spend the whole of their incomes, seem to be wholly unwarranted propositions. Positive monetary policy instituted by government to provide the liquidity which is periodically demanded holds no terrors save for the most fainthearted; yet it might go a long way toward solving the cycle problem. Deficit spending as a depression-remedy, while holding considerable terror for some, is nevertheless a solution which, if it leads ultimately to over-all controls, has at least the merit of gradualness. Neither recommendation seems to postulate nor to make inevitable a thoroughgoing seizure of power by government.

Next Mr. Barker has admitted the need for the regulation of private enterprise and has rightly pointed to the pitfalls that exist. One thing, however, is clear. It is that the business point of view conceives of most regulation as the fruit of idealism and impracticality wherever that regulation conflicts with a

given competitive advantage. Any world scheme which emerges from the present conflict based upon the proposition that government will not permit concentrations of industrial and financial power to develop must brutally insist upon free trade and all-out competitive practice. But businessmen will remonstrate even against this policy. In Mr. Barker's vein, they will say, "If we give freely to our potential competitors of our capital, technical ability, equipment, and bargaining position in order that they may improve the standards of living of their populations, we shall have to make sure that our contributions are used by them for this purpose and not merely to improve their national competitive position in world markets." Indeed, as a general rule the declamations are in basso profundo against the prerogatives of government in business, but only in *sotto voce* against the prerogatives of business in government.

As for the reasonableness of government regulations no opinion need be rendered here. Reasonableness or lack of it will have to be examined case by case against the whole background of democratic process. I am constrained to note, however, that Mr. Barker's citation of the salary limit is not in complete accordance with his professed desire to avoid in discussion "the abnormalities of a wartime economy."

In conclusion let me tie together some otherwise loose ends. If the real problem we are analyzing is a problem in social ethics, then we shall have to look at all the control-phenomena which present themselves. On the one extreme there is antidisestablishmentarianism. The viewpoint at least of "big" business seems to find a comfortable pigeonhole here along with other beneficiaries of today's syndicalistic struggle which masquerades as an economic system. Here is also to be found the viewpoint of that innumerable society sometimes called the bourgeoisie. The latter's preference for antidisestablishmentarianism is ostensibly a product of fear, preoccupation, and carefully nurtured misconceptions.

At the other extreme there is, for want of a better name, collectivism. Herein fall the "revolutionaries" of society—many of them sincere and desirous of practicable reform; others merely opportunistic and frustrated. All entertain the perverted notion that the economic problems of society are waiting to be solved by simple transfers of power. This is their only criterion of public policy and constitutes potential antidisestablishmentarianism equal in its virulence to the first.

A possible solution to present economic problems as they relate to the entrance of government into business may be found somewhere between these two extremes. There are some, for example, who, seeing all too clearly the quantitative aspects of freedom, advocate the maintenance through government action of atomistic or competitive relations between producing units. Coupled with an alert and well-implemented monetary authority, the removal of rigidities in the price structure is an attractive proposition. Without a full recognition, however, of the degree to which we have already entered into an administered economy—primarily from the side of industrial and financial manipulation and latterly from the side of governmental regulatory inter-

THE POSTWAR RELATIONSHIP BETWEEN GOVERNMENT AND BUSINESS

By Clifford J. Durr
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The subject assigned to me is a ticklish one as it speaks in terms of the future, and is, therefore, an invitation to play the role of prophet—a role I neither desire nor am qualified to assume. Nor can I avoid treading on dangerous ground by couching my remarks in terms of what might rather than in terms of what will be, for the line between speculation and prophecy is too fine for comfort. I derive some consolation, however, from the thought that my predicament is shared by others who are taking part in this program. Moreover, the right to do a certain amount of crystal gazing cannot reasonably be denied if the present is used as the crystal ball.

It should not be assumed that at a certain hour on a certain day the war will abruptly come to an end and we shall immediately pass from a state of total war to one of total peace. Nor can it be assumed that upon the cessation of hostilities the slate will be rubbed clean and a brand new start made. There will, of course, be change and new problems to be met, but we shall have as a legacy from the present the plants, machinery, and techniques we are now building, and they will not all be scrapped.

Our awareness of the impact of the war on our civilian economy does not arise alone from the personal inconveniences resulting from rationing, higher taxes, and a rising cost of living. Manifestations of a far more significant nature surround us. Plants and productive facilities of all types are being converted from civilian to military production. New plants are being constructed in a volume and with a speed far beyond anything we have seen before. New mines are being opened to produce critical materials for which other countries were formerly relied upon, and substitutes are being devised for the things we are unable to produce or acquire. Capital expansion is being financed by the government directly instead of through security issues, and working capital is being provided by the government or made available through government guaranteed loans. Manufacturers find in the government a single customer, and instead of having to seek markets and promote sales, their problem has become one of supplying demands. Even in the case of producers of civilian goods the problem is one of adequate supply rather than the creation of additional demand.

Large manufacturers are becoming even larger, while the small producer, who has been a major factor in preserving the competitive

features of our economy in peacetime, seems to be in danger of passing out of the economic picture, or, at least, completely losing his independence. Some of our small manufacturers are themselves becoming big business. Many others are being drawn closer and closer into the orbit of larger concerns for whom they produce as suppliers or subcontractors, while still others, who are not properly equipped or for other reasons cannot obtain war contracts, are being forced out of business because they cannot obtain the minimum of materials necessary to maintain their customary production of civilian goods.

Miracles of production are being performed, but unfortunately, along with these miracles, some of our best producers are operating at far less than capacity because others upon whom they have to rely for materials or equipment have been less efficient, less energetic, or more concerned with securing their postwar position than with winning the war. While watching the flow of materials from the mine to the smelter, from the fabricator, supplier, and subcontractor to the prime contractor and seeing the delays which result from any interruption in the flow, we become more aware of the interdependence and wholeness of our production machine.

Patents and processes are being pooled in order that all producers for the government may take full advantage of the latest scientific and technical developments.

Mass migrations of labor are under way from the rural communities to war production centers. Young men and women are leaving farms, high schools, and homes, and after only a few weeks training, becoming efficient cogs in the production machine, and older men who had been discarded because it was thought their period of usefulness was over, are resuming their skills and proving that they have been the victim of a tragic mistake.

We see in operation a new kind of profit system which is not capitalism and a new kind of private enterprise which is not based on private initiative—a system in which the government provides the capital and takes the financial risk, while business is paid a management fee for the hire of its organization, and in which the manufacturer furnishes the technical skill, ingenuity, and organization ability, while the government provides the market and says what and how much is to be produced.

It is not the purpose of this paper to suggest solutions to the many economic problems that will face us when the war is over. Others, more expert than I, will deal with some of these problems, and while a wide diversity of opinion is to be expected as to the methods by which these problems can best be solved, most of us can agree on at least two general objectives: First, the minimum of unemployment and

the highest obtainable general standard of living; and, second, the preservation of our democracy.

We have learned already that we cannot obtain the production we need for waging the war as an undirected by-product of what we commonly refer to as "sound business principles." Neither can we expect such by-product to furnish us after the war with the standard of living which we shall be warranted in expecting from the capacity to produce now being demonstrated. In fact, this lesson was beginning to be brought home to us during the decade immediately prior to the outbreak of the war. There must be some over-all source of direction more concerned with the objectives above mentioned than with the profits or losses of individual business concerns. If we are to preserve our democracy, it is essential that this direction be in hands ultimately accountable to the people.

No good purpose will be served here in arguing the relative efficiency of business and government. Without subscribing to the carefully nurtured myth of governmental inefficiency, it is sufficient to point out that business and government operate in different fields and with different objectives. With a few notable exceptions, such as in the field of public power, our government is not now organized for, or experienced in, production. On the other hand, business is neither organized for nor experienced in governing.

Size alone argues in favor of preserving the maximum of private business organization. As size increases we reach a point of diminishing return in efficiency, and the government is still larger than any of our business organizations. Moreover, our private business organizations are now proving magnificently their ability to produce. It is only sensible to keep the machinery which we have so long as it is operating satisfactorily rather than to scrap it in favor of new machinery that is still untried.

As a people we have traditionally resented any interference with what we regard as our private affairs, and business has certainly been no exception. However, businessmen themselves recognize that when a concern reaches such a size that a whole community has become dependent upon its pay roll, or its product has become a national necessity, it ceases to be a strictly private affair. They have come to accept the need for regulation, however much they may disagree as to the extent to which it should go or complain about the manner in which it is applied. The validity of many of their complaints must be recognized. The very magnitude and complexity of the business organization in a large and highly industrialized country such as ours argues against the detailed regulation of its operation. It is therefore important that the over-all direction to which reference has been made be so designed

and administered that its direct impact on individual businesses will be at a minimum. The maximum room should be allowed for the play of natural economic forces and primary concern should be to create conditions favorable to abundant production and distribution.

Adequate production can be expected only if the manufacturer is assured of an adequate supply of raw or semifabricated materials at fair prices, financing at reasonable rates to meet plant and working capital requirements, and a market for his goods. As the government-provided market is decreased through the termination of its orders for war materials, the backlog of unsatisfied wants built up during the period of war will provide a partial substitute. In addition, there will be the problem of rebuilding the war-devastated countries and of supplying machinery, materials, and equipment to the countries such as China, Russia, and the Latin-American nations that are still in an early stage of industrial development. How the purchases of these foreign countries can be financed is a problem that can better be dealt with by someone more versed in the field of international finance.

It would be a dangerous mistake, however, to assume that the markets created as a result of the war itself will continue forever. Provision must be made to take up the slack whenever and as soon as it occurs. Housing and public works projects are two obvious illustrations of things that can be done. Their usefulness has been demonstrated in the past, though a certain timidity in use, coupled with a fear of crossing the boundary line into the field of private business, has prevented their value from being fully demonstrated. A reservoir of carefully-thought-out public works and housing programs should be kept available at all times to be used when needed. It should be remembered that initiative, originality, and pioneering may be just as important in the development of new public works projects as they are in the development of private enterprise. Such projects should not be regarded as another form of dole for the unemployed, but as worth-while in themselves. The stigma heretofore attached to WPA workers should be avoided. Labor should be paid at prevailing rates, for if the project is of definite public usefulness and at the same time a contribution toward providing a better standard of living, the laborer will be worthy of his hire. It should be recognized, too, that the pay rolls and the orders for materials and equipment provided by these projects may save many of our manufacturers and businessmen from themselves falling into the category of "reliefers."

With an assured market for his goods, the manufacturer's problem of obtaining credit for necessary plant expansion and for working capital becomes greatly simplified. However, there will still be a wide field in which private financing is unable or unwilling to do the job.

Just as it became necessary for the government to extend financial assistance in the plant expansion and conversion program necessary to place our production on a wartime basis, so also industry may need a helping hand from the government in its return to the production of civilian goods. Since the elements of monopoly are not entirely absent in the field of finance, government financing would afford a protection against the arbitrary withholding of credit. It may also serve as a yardstick to keep financing costs within reasonable limits. The type of financing now being carried on by the Defense Plant Corporation, in which the government provides the money and owns the plant, which it leases to the manufacturer, may serve to encourage ventures into new fields where the possibilities are great but the risks are too heavy to be assumed by private business. Government credit policy must be guided by broader considerations than the collateral offered or the balance sheet and earnings statement of the individual borrower. As important as these considerations may be, they should be subordinated to general social and economic objectives, keeping in mind, however, that there is no substitute for good managerial ability.

There is no reason for believing that with the end of the war we shall have to continue any system of priorities or allocations to control the distribution of basic materials. Today the problem is one of supplying the urgent need of fighting armies. Goods are produced with the intention or expectation that they will be destroyed. They have to be replaced as war takes its toll. Moreover, our present facilities are not yet operating at their peak and many are still in process of construction. Postwar requirements should not impose any strain on our productive facilities and our problem will be rather one of guarding against artificial restraints upon the use of facilities to the extent necessary to meet the requirements of our economy.

One important precaution taken against the possible future use of such artificial restraints is found in the Defense Plant Corporation's method of financing to which I have already referred. In the early stages of our defense program there was much support for a scheme of financing under which the manufacturer would be permitted to borrow the cost of his plant expansion from the government on a nonliability basis and at the same time increase the price of the supplies which he was to produce for the government by an amount sufficient to amortize the loan. This would have left the manufacturer at the end of the war with title to a plant in which he himself had no investment whatsoever. Under such an arrangement temptation would have been offered the manufacturer at the end of the war to scrap part of his plant capacity as a precaution against overexpansion. With the government holding title to the plants, the prospect of useful productive capacity being destroyed

in an endeavor to increase prices by limiting production, will be greatly reduced. Even where the manufacturer is given an option to buy the plant at the end of the war, the incentive to continue it in operation will still be present for it is unlikely that he would be willing to pay the option price unless he intends to operate the plant at least long enough to recover his investment.

War has accelerated the tendency toward economic concentration which has long been a characteristic of our economic system. The prevention of monopoly should be given great weight in determining the disposition to be made of government owned plants, particularly those producing such basic materials as aluminum, magnesium, rubber, and steel. Competition can be promoted by a judicious selection of operators, and as a precaution against the subsequent consolidation of interests which may then appear to be competitive, lease of the plants would appear preferable to outright sale. Consideration should also be given to the retention of some of the plants for operation by the government as yardsticks.

There is no one solution of the monopoly problem. The necessity for all-out production to meet our war needs has made us aware of the restrictive effects of our patent system and how its abuse has contributed to the furtherance of monopoly. To the extent that the problem cannot be solved by further patent legislation, strengthening and rigidly enforcing our antitrust laws and through the disposition of government owned plants above referred to, monopolies will have to be recognized as public utilities and regulated as such. The mere control of prices and establishment of standards will not be sufficient. There must also be power to require production to the extent needed.

It is likely that in the field of international trade governmental restrictions will have to be much more rigid than those applied to our domestic commerce. In the past too much of our foreign policy has been the by-product of the operation of private business concerns. In the face of the problems likely to arise after this war within and among the other nations of the world, strong and clear governmental policies will have to be laid down and business will have to adjust itself to political requirements. It is to be expected, therefore, that some of the export controls now being developed will have to be continued and even strengthened. Possibly the government itself may have to become the sole exporter and importer in order to deal with other nations which will have made international trade an instrument of their governmental policy.

There is no lack of precedent for the forms of organization which may be used in providing the required economic direction. Boards, com-

missions, and authorities all have their proper place. The government corporation probably provides a greater degree of flexibility than other forms of government organization and has proved its value in the field of credit, purchase of supplies, and other quasi-business operations.

More important than the form of organization is the type of the administrators in charge and their ultimate accountability. Reference is often made to the desirability of a "partnership" between business and government. If this means that greater co-operation between business and government should be brought about, there can be no disagreement. Such co-operation is of vital importance today and the case in which it is not freely given is the rare exception. But we cannot accept a concept that carries with it the idea of an alliance between business corporations and the government as sovereigns of equal rank. No government can afford to permit its sovereignty to be challenged, whether in time of war or in time of peace. Moreover, government and business have different objectives—different purposes to serve and a different kind of accountability. Business should, of course, be looked to for information and advice with respect to the effect of governmental policies and procedures upon business operations. It is to be hoped that once the principle of governmental sovereignty is accepted, the antagonisms of the past will be replaced by a spirit of mutual helpfulness between businessmen and government officials with the realization that co-operation will be to the advantage of both. However, it is important that the responsibility for decisions on governmental policy be placed with government officials whose concern with the public interest is not qualified by any special concern with the effect on any individual business organization. These officials may have had a background in business—or in labor, agriculture, or finance—but they must not be representatives of business—or of labor, agriculture, or finance. They must be representatives of government exclusively.

The government official is not, of course, endowed by his appointment with any particular attributes of character, ability, or wisdom. His special virtue lies only in the fact that he has no employer other than the government and in the opportunity he has of developing a habit of thinking in terms of public interest rather than in terms of the special interests of narrower groups.

As our affairs have become steadily more complex, Congress has had to limit its legislation more and more to general policy, leaving the details to be filled in by administrative agencies which, by reason of their limited duties, are in position to acquire greater expertness in particular fields. Such delegation is essential if government is to function with the speed required to meet our present-day problems, but it

carries with it the need for close Congressional supervision to assure that the policy laid down by Congress is not defeated under the guise of administrative action.

There is at present too little contact between administrative officials and the Congress and too little understanding by each of the problems of the other. The requirement that heads of agencies appear before appropriations committees to justify their requests for funds is an indispensable check, but is not sufficient to establish the relationship which should exist; nor is it enough to require the filing of periodic reports and occasional appearances before Congressional committees to testify on pending legislation. A relationship of a more continuous and less formal nature is required. Practically, this can be supplied only through the Congressional committees, and it is therefore suggested that each such committee establish subcommittees responsible for the several agencies falling within the scope of the committee's concern. A system of conferences between the agency heads and the subcommittees should then be arranged in which the activities and problems of the agencies can be fully discussed. Such conferences would serve to check any inclination on the part of an agency toward arbitrary action and to dispel the fears of Congress that the agency is attempting to usurp legislative powers. On the other hand, by removing Congressional distrust based upon lack of understanding or inadequate information as to the agency's activities, the agency should find in the subcommittee members sympathetic supporters of its cause when it appears that statutory restrictions are needlessly hampering the efficiency of its operations.

It might be objected that such an arrangement would afford too great an opportunity for abuse by the subcommittee members in furthering their own political aims. The only answer that can be given to this objection is that the agency head must constantly keep in mind the principle of the division of powers and be as zealous in resisting any encroachment on a purely executive function as he is careful in recognizing the supremacy of Congress in the field of legislation. Moreover, the way is always open for him to carry his fight to the whole committee or to the floor of Congress itself, if he feels that the subcommittee has been arbitrary.

Such subcommittees can further serve by bringing to light information that must be publicized if we are to have the informed public opinion necessary to the successful functioning of a democracy. In time of war the need for military secrecy may, unfortunately, be used as a cloak to conceal inefficiency, or worse, in the conduct of nonmilitary activities. We should guard against any such system of secrecy being carried forward into peacetime under another excuse.

The war which is being waged today is not solely a military contest between nations. It is a war of ideas as well, and while the military war is being waged between the nations, a struggle for power is going on within the nations between those who believe in the ultimate ability of the people wisely to determine their own fate, and those who distrust this idea and would substitute commands for public discussion and the ballot box as the more efficient means of obtaining material objectives.

The methods used to harness our great productive strength for war purposes have been democratic. The power exercised by the government, it is true, has been greater than we have been accustomed to and probably more extensive than would be desirable in peacetime; but despite dire predictions to the contrary, elections are still being held. Widespread unemployment and want after the war, while productive capacity lies idle, would constitute a much more serious danger to our democracy than the existence of the power necessary to assure that such capacity will be used. We have no need to fear this power so long as it reposes in hands responsible to the people.

THE NORMATIVE PROBLEM IN INDUSTRIAL REGULATION

By Joe S. Bain
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A principal focus of domestic economic policy in the postwar period may well be the regulation of industrial prices and price policies. In the past decade, of course, it was recognized that the unregulated policies of business were probably reacting adversely upon the level of employment, the character of the business cycle, the allocation of factors among uses, and the efficiency of the use of capital. Government, however, continued to accept unregulated industrial price behavior as given, except insofar as it might be influenced by antitrust and kindred policies. It attacked the inadequate and unstable level of employment by monetary and fiscal means, with emphasis on deficit financed spending as a supplement to an allegedly inadequate rate of private capital formation. This reluctance to venture far into the realm of government price policy stemmed from a general lack of agreement regarding the ends and means of such a program, and from the fact that a monetary-fiscal policy was a more conservative and more easily administered means of dealing with the most obtrusive difficulty, unemployment.

There are nevertheless pressing reasons why government price policy cannot be indefinitely neglected. Should underemployment re-emerge as a difficulty in the first postwar decade, the merits of a compensatory spending policy as a stopgap do not promise to survive. Deficit financed spending could be maintained only through cumulative additions to a debt which will already have attained record proportions and will require for its service an embarrassing tax burden.[1] Although continued spending should alleviate unemployment, moreover, it would not eradicate its cause. A propensity to consume which is too low to allow full employment with a restricted rate of investment is a symptom of an unduly skewed distribution of income *and of a pricing system which supports this skew*. Until this difficulty is removed, a spending policy may be accused of choosing always to swim against the flood rather than damming it off at its source. Modification of price behavior might attack underemployment nearer its source, and might eradicate much of it.

Even if postwar prosperity or a "fourth Kondratieff" ends the immediate need for stimulating employment, moreover, the virtually stagnationist tendencies of the pricing system should be examined and dealt with in a manner appropriate to their setting. In a prosperous environ-

[1] The once popular argument that compensatory spending will carry its own weight by providing sufficient additional tax revenues from an increased national income to retire the debt is effectively refuted by Paul Samuelson, "Fiscal Policy and Income Determination," *Quarterly Journal of Economics*, August, 1942, pp. 575-605.

ment, furthermore, the possibility of dealing with chronic excess capacity and with the allocation of factors among uses should be seriously examined as a practical matter. Whatever the postwar context, in short, it is requisite now to examine the various potentialities of governmental price policies, and to determine as specifically as possible what sort of program is called for.

The utility of such a discussion, however, can be lost by leaping to its conclusion and considering initially the various administrative means and methods, such as cartelization, antitrust litigation, or direct price control. A definition of ends should precede the selection of means. In logical order, the initial step is to analyze the connections between price behavior and the aggregative behavior of the economy, and to decide what dimensions of price behavior are most relevant. A second step is to establish norms of ideal or relatively desirable behavior. Finally, if the discrepancies of actual from normative behavior seem significant, we may consider what means seem appropriate for securing appropriate modification. The succeeding discussion of industrial price regulation will observe the foregoing pattern, and turns first to the ascertainment of the relevant aspects of business behavior.

Market Results, Evident Behavior, and Market Structure

Any economic behavior is significant for policy purposes insofar as it impinges directly upon individual welfare and upon the aggregative behavior of the economy. The effect of industrial market behavior upon the economy is registered through price and market results. It is of small account to material welfare if markets are concentrated or not, or if producers vie or agree, unless pricing results are correspondingly affected. The immediately relevant dimensions of business behavior are therefore price-cost, price-price, cost-cost, and other similar relationships that emerge from the market structures and competitive tactics observed. Policy is therefore concerned ultimately and if possible directly with these pricing results, and its norms should be either originally written in or readily translated to these terms. The character of the relationship between market structure and pricing result is as yet not fully enough understood that dependable norms can be drawn in terms of market structure.

There are evidently several dimensions of price results which may have an impact on the operation of the economy—principally the relationships of price to average cost, of price to marginal cost, and of selling cost to production cost; the rate of utilization and the scale of plant; and the flexibility of price through time. The problem is first to decide how they are severally related to the aggregative behavior of the economy, and second to consider their normative values.

The Policy Orientation of Various Pricing Results

The importance for policy of any price-cost relationship hinges upon its effect upon economic welfare. It follows that the relative importance of various relationships will depend upon what are considered the significant dimensions of social welfare, and upon which of these dimensions is the current primary concern of public policy. The dimensions of social welfare which are generally accepted as significant and upon which price behavior may be expected to have a fairly direct impact are the allocation of the factors of production both among products and between production and selling; the volume of employment and real income; the severity of cyclical fluctuations; the efficiency of production; the distribution of income; and the degree of technological progressiveness in the economy.[2] All of these matters are important; the primacy of any one is a temporal and perhaps transitory but nevertheless a very significant phenomenon.

In the last peacetime decade, the dimension of social welfare to which policy had perforce to devote its major attention was the general level of employment, and inferentially, therefore (in terms of the Keynesian analysis), the problems of income distribution, cyclical fluctuation, and technological progressiveness. With a large volume of unemployment, these problems required primary attention. The dimensions of price behavior which were most significant were accordingly those with a direct impact on employment and related problems, while other dimensions, such as allocation of the factors among different uses, deserved less immediate attention.

In this light, it is apparent that when underemployment is pressing, price results having a primary bearing upon allocation are not paramount. The relationship of price to marginal cost, which has received a large share of the attention of price theorists, has its principal impact on the allocation of factors among uses. Its impact on employment, cyclical instability, and technological progressiveness is a priori neutral —changes in the margins between price and marginal cost have a priori no systematic effects on the volume of employment.[3] The same applies to the relationship between selling and production costs, as influenced by the intensity of nonprice competition. The rate of plant utilization (like the scale of plant) is likewise not necessarily related to the volume of employment. In the short run, utilization may be correlated with

[2] Compare D. H. Wallace, "Industrial Markets and Public Policy," *Public Policy* (Yearbook of Harvard Graduate School of Public Administration) 1940, pp. 59-129. This long essay constitutes the closest available approach to a definitive treatment of the whole normative issue.

[3] It has been argued that the departure of the demand curve of the firm from perfect elasticity reduces the marginal efficiency of capital and restricts its investment. This will result in restriction of investment for the industry, however, only when entry to the market does not overcome the effect of individual restriction of investment.

employment, but no unique connection is implied between the efficiency of production and the level of employment. Three of the principal preoccupations of normative analysis are thus not primarily relevant to the employment problem.

The market result which obviously is of paramount importance for the level of employment is the relationship of price to average cost. Underemployment (following the Keynesian terminology) emerges when there is a maladjustment between the rate of investment and the propensity to consume, and could be remedied by an increase in either or both of these quantities. A low propensity to consume arises out of the prevailing skew in the distribution of income,[4] while inadequate investment may stem in part from unduly high prices of investment goods and from the inadequacy of expected profits. The ratio of price to average cost is thus of primary significance to the level of employment, since it affects both the distribution of income between wages and profits and the prices of and yields on investment goods. Excess profits in a secular sense will tend continually to skew the distribution of income and to reduce the propensity to consume and the multiplier. At the same time they will probably discourage the rate of investment, since they are maintained necessarily through a relative restriction of investment and since their maintenance in turn increases the costs of other investment projects. In the net, greater than competitively normal profits will tend to reduce employment.[5] In a cyclical setting, the time behavior of price-average cost relationships may influence the severity of fluctuations. Large excess profits in periods of expansion eventually exert via the multiplier a relatively deflationary influence (if their short-term investment inducing effects are disregarded) and in a secularly stagnant situation may hasten the incidence of recession, whereas lower prosperity profits, while perhaps discouraging to self-limiting induced investment, may promote slower, longer, and more stable expansion processes. The relationship of price to average cost is thus integrally related with the level of employment, and norms for this relationship should be of paramount importance in any stagnation period.[6] Importance should be attributed not only to its average level but also to its behavior over time.[7]

[4] Compare A. H. Hansen, *Fiscal Policy and Business Cycles* (New York, 1941), pp. 225-249.

[5] If we drop the Keynesian sequence of reasoning, the above merely amounts to asserting that lower profit rates will be favorable in the net to total expenditure and employment. This "causal" impact of excess profits is not inconsistent with the fact that such profits often emerge in periods of high prosperity; their existence *ceteris paribus* is still deflationary.

[6] Compare Hansen, *op. cit.*, pp. 313-338.

[7] Compare D. H. Wallace, "Kinds of Public Control to Replace or Supplement Antitrust Laws," *American Economic Review*, Supplement, March, 1940, pp. 194-212. The preceding analysis draws heavily on Wallace for suggestions. It differs principally in that it deals with general rather than particular price reductions and in that it is concerned with the

A second market result apparently related to the level of employment and to the severity of cycles is the degree of price flexibility. This is inferred principally through its impact on the cyclical behavior of profits, and the norm of price flexibility should for this purpose be drafted with reference to the profit problem. As will be argued below, however, some conventional norms of price flexibility may have slight relevance to the employment and cycle problem.

In general, each dimension of pricing results has its specific impact on the aggregative behavior of the economy. As long as the various dimensions and their respective impacts are clearly distinguished, attention may be devoted to one or another as a matter of policy depending upon the exigencies of the moment.

In the next section,[8] it is noted that the market results found in the model of purely competitive equilibrium are in several respects attractive as norms but that it is not a priori obvious that these norms *are* or are *not* the proper norms for behavior within our economy. The various dimensions of a purely competitive equilibrium may not be simultaneously attainable and may be viewed as semi-independent goals.

Because unemployment has to date been the most distressing difficulty of industrial capitalism and because the relationship of this difficulty to the pricing system has to date received the least attention, the following discussion places principal emphasis on the norm of price-average cost relationships, which serves as a significant norm for income distribution.

Toward a Norm of Price-Average Cost Relationships

If the problems of the postwar period are similar to those of the last peacetime decade, then, the primary task is the establishment of a norm of price-average cost relationships suitable to the attainment of full employment with a minimum of compensatory spending by the government. On the surface this might seem merely to involve deciding how close to cost prices should run on the average, and how the margin should fluctuate over time. In fact, however, it involves much more. Any norm of price-average cost relationships is a norm not simply of income distribution but also of the proper earnings of business assets *and therefore of the economic valuation of these assets and of the distribution of wealth.* In other words, the definition of the costs to which prices are to be adjusted involves a conception of normative costs, which implicitly assigns to assets a valuation consistent with this normative

secular as well as with the cyclical context. The elasticities of individual sellers' demand curves, emphasized by Wallace, are neglected here because the analysis is no longer of a partial equilibrium character.

[8] Omitted by Editor.

definition of costs. The establishment of a normative profit margin is thus not merely an arithmetical but also a legal and institutional problem which involves the definition of normatively acceptable property values. Either the implicit or explicit treatment of such values is involved in the setting of any price average-cost norm. It is obviously preferable that it be explicit.

The institutional implications of the profit norm of purely competitive equilibrium are seldom emphasized, nor are they necessarily one thing. The degree in which they are applicable to the real world will be better understood if they are more fully investigated. A *completely partial equilibrium* version of the purely competitive norm could be quite conservative in character, and might be described as having *status quo* implications with respect to the institutional structure. It could be defined to require merely the equality for long periods of total revenue with the total cost (inclusive of interest and other opportunity costs) shown by the accounts of a firm which followed the practice of valuing assets at their original cost less depreciation. All asset values could be accepted as long as they were paid for, for the purpose of calculating both depreciation of and interest on investment, and all current outlays could be valued as incurred in accordance with the going prices of suppliers, whatever their character. The norm would thus inferentially accept the influence on fixed costs (depreciation and interest) of whatever departures from pure competition had occurred in the pricing of past transactions, and would therefore accept largely the prevailing distribution of wealth whatever its source. Furthermore it would explicitly accept those departures from competition in current markets which influence the level of factor prices paid by the firm in question. An inspection of typical industrial earnings suggests that most firms are on the average already fulfilling this norm. Such a norm is not very radical in character.

A general equilibrium norm of purely competitive price-average cost relationships, on the other hand, has more radical institutional implications. In this setting, all costs must be defined not as they are per accounts but as they would be in a general competitive equilibrium of prices and average costs. The fixed assets of any firm are properly valued not at their cost less depreciation but at their "replacement cost of service"—at the cost of acquiring the services they will provide through the most economical alternative available in a generally competitive market.[9]

[9] This at once eliminates both normative overvaluation attributable to original "overpayment" for fixed assets and the influence on replacement cost service of current price-average cost discrepancies in the markets of suppliers. Currently incurred costs would be valued at the level they would attain if all firms simultaneously attained equality of price to average cost. Prices would be equated for all firms in the economy to costs thus simultaneously defined.

The institutional implications of the imposition of such a norm are indeed sweeping, and its radical character is a measure of the great departure of actual conditions from any approximation to a general purely competitive equilibrium. As regards the level of currently incurred costs, departures from such a norm in the real economy are cumulative in character. The price-cost discrepancy of each firm is built upon that of its suppliers, successively and reciprocally, to a presumably large total. The relationship of goods prices to wages would be drastically affected by the redefinition of such costs. More radically, the application of the norm implies the abolition of all asset values in excess of the competitive replacement cost of the services currently employed. This implies the elimination not only of all current monopoly valuations in excess of original cost but (more important) also of all current original cost valuations which have been influenced by past departures from competitive conditions.[10] It implies, in short, a complete reappraisal of the value of currently owned business wealth, and a confiscation of most of the property valuations with another than purely competitive source.

A fairly considerable proportion of the property values in fixed assets and natural resources on which depreciation, depletion, and interest are allowed would presumably fall before such a standard. Although the accounting valuation of assets on a basis other than original cost is increasingly rare, the concentration movement is probably replete with instances of "capitalized restraints of trade" bought and paid for, either in cash or in complicated exchanges of stocks which were more or less arbitrarily valued.[11] It is also not uncommon that natural resources were acquired in large amounts for future use and valued at a cost in excess of the amount of the discounted present value of future competitive rents. These excesses are still registered in book values, as are the cost values of redundant and obsolescent plant capacity. Application of the standard in question would result in squeezing out the "water" in all current valuations, with water defined in a very broad and inclusive fashion.

The general equilibrium norm is indeed radical in its implications, but emphasis on these implications is salutary. It makes it quite clear that because of the elastic definition of cost and its relation to asset valuations, the question, what is the desirable relation of price to average cost, becomes the question, what property values should be allowed to earn the rate of interest, or what is the proper earning power value of current wealth. The competitive norm has a time dimension which rejects the influence on current asset valuations of past deviation from competition.

[10] And an adjustment of the valuation of physically redundant plant.

[11] See Thurman Arnold, *Bottlenecks of Business* (New York, 1940), pp. 46-47.

It is possible for practical or operational purposes to develop a partial equilibrium norm which incorporates some of the features of broader general equilibrium norm. That is, the assets of any individual firm may be valued at their replacement cost of service in terms of the going prices of suppliers (instead of at those prices which would obtain in general competitive equilibrium) while currently incurred costs would also perforce be taken at current prices. Applied to any one firm, this would eliminate the discrepancies in the asset valuations of that firm which it could eliminate and still earn enough to replace its capital. Applied simultaneously to all firms, it would approximate, after reciprocal adjustments, the general equilibrium norm.[12] It is to the potentialities of this compromise norm, for either partial or general purposes, that we will now turn.

What is an operable norm of price-average cost relationships for the purposes of public policy? Operability involves, jointly, administrative feasibility, consistency with the existing framework of law, and consistency with the effective operation of the economy. Postponing the first two issues for the moment, let us consider whether, provided legal and administrative problems are solved, the competitive norm suggested is consistent with the effective operation of the economy and, if it is not, whether any substitute norm (other than that of observed behavior) would have this property.

Such a norm is obviously inconsistent with a system of relatively unregulated enterprise of the customary sort. The normative price-average cost relationship is probably not even a distant approximation to the "most profitable" position ordinarily selected by the firm. Something akin to direct price regulation is necessarily presupposed as a framework for the attainment of the norm, and the question therefore becomes one of whether, should prices be set in some approximation to the norm, the remaining decisions still made by private management would accord with the amelioration of total welfare. Specifically, would these decisions regarding the replacement of capital, the introduction of technological innovations, and the undertaking of net investment be adversely influenced in such a way as to offset the favorable employment effects of the more equal distribution which a reduction of enterprise earnings would effect?

The maintenance or replacement of capital should not be adversely affected by the imposition of the norm in question. Its essence is to allow an "interest"[13] return on the replacement cost of service of exist-

[12] See J. S. Bain, "The Profit Rate as a Measure of Monopoly Power," *Quarterly Journal of Economics*, February, 1941, pp. 280-281.

[13] This "interest" or "normal profit" rate should include the basic money interest rate plus a due margin for risk appropriate to the case. Efficiency differentials are taken care of in the definition of total costs in opportunity terms. The effective risk rate may of course be influenced by the ceiling on profits, if there is no corresponding floor placed under losses.

ing assets, and this should be sufficient to induce replacement of all nonredundant assets.

The stimulation of technological innovation and net investment generally is a more serious problem. Historically it seems true that an important stimulus to innovation and net investment has been the expected reward of "excessive" profits during a transitional period of adjustment and perhaps of the establishment of semipermanent monopoly positions.[14] Many extranormative asset values have resulted from the astute innovatory activities of the past. There is a serious question whether capitalist enterprise will progress effectively and will provide an adequate volume of net investment if any "excess" profit reward for this activity is precluded by price regulation. In the past the innovator faced the possibility that competition would wipe out his advantage in a short time; but he had recourse to various defensive devices, such as resource monopolization, patent protection, and merger for the perpetuation of his advantageous position. Nullification of the effectiveness of such barricades by price regulation might kill the fabled spirit of "competitive" enterprise. It seems likely, therefore, either that imposition of the competitive norm on prices would have to be accompanied by interference in or artificial stimulation of investment policies, or that the norm would have to be so defined as to allow transitional excess profits as a reward for the reduction of costs or the introduction of new products. If the norm were to serve alone in an economy otherwise left to private enterprise, the latter modification seems to be essential. It could preclude the establishment of monopoly positions, but could allow excessive earnings equivalent to the reduction of cost in the case of innovations of technique, or at some arbitrary level in the case of innovations of product, for a stipulated period.

Admittedly, this complicates the definition of the norm considerably. If such a normative situation were approximated, however, it seems likely that the revision in the existing distribution of income would be sufficient to have a fairly large favorable effect on the level of real income and employment.

A Norm of Cyclical Profit (or Price) Flexibility

The norm of price-average cost relations as developed to this point is essentially one of a proper rate of *net profits* (above total cost) averaged over a considerable period of years. This is a sufficient definition only in a setting of stable economic conditions over time; as soon as we admit the phenomenon of continuing business fluctuations it must be elaborated to include a norm of the time pattern of profits over the

[14] See J. A. Schumpeter, *The Theory of Economic Development* (Cambridge, 1934). The urge to establish monopoly positions may perhaps be given more emphasis than is given it by Schumpeter.

cycle. The proper norm for the cyclical pattern of profits (like other norms) is related to the character of the most significant dimensions in which the economy departs from socially desirable behavior. In an economy with a periodically large volume of net investment, and strong booms surpassing the minimal level of full employment, a normative profit behavior would tend to dampen fluctuations, and particularly would be deflationary in upswings. A falling multiplier during expansion would be desirable provided its effect were not offset by the short-term inventory accumulation and other like investment induced by rising profits. In a stagnant economy, where expansion processes fail to attain or to hold full employment, a normative profit behavior would tend to discourage excesses of speculative investment in upswings, but should exert as large as possible a multiplier effect on long-term investment, thus tending to favor the attainment of sound full employment levels.[15]

In a stagnant economy, it would seem desirable that the ratio of price to the average of currently incurred (non-sunk) costs should be relatively stable over the cycle, and in particular that it should not tend to rise rapidly when expansion processes get under way. This implies that prices should be potentially flexible, not to marginal costs, but to the average of currently incurred costs, following them directly over the cycle.[16] They would thus respond to changes in these average costs attributable to changes in factor prices and to variations in plant efficiency with variations in the rate of use. They would not respond to apparent variations in per unit sunk costs, since these are the result of some a priori irrelevant method of allocating such costs over time. This is a rather unusual norm of price flexibility. It does not accord with the sort of flexibility presumably attributable to purely competitive markets, where prices follow marginal cost variations and shifts alone, but instead implies relatively inflexible prices in the net or perhaps, in limiting cases, actually reverse price flexibility. This is not a norm, however, of price rigidity per se, but of relative stability (according to the variation in average currently incurred costs) *at a level so low as to allow only normative net profits in the long run.* It is quite consistent that firms operating at the existing level of prices should reduce them considerably in any major upswing.

There is little reason to believe that the norm of price flexibility suggested would be highly inconsistent with the effective operation of an otherwise privately controlled economy, since it more or less accords with the "normally profitable" price standards often entertained by

[15] These suggestions for profit behavior parallel those made by Hansen (*op. cit.*, pp. 289-300) for a compensatory tax policy in these two sorts of situations. In a short period setting, however, the relevant measure of profit ceases to be net profit and becomes the margin between current noncapital outlays and current receipts.

[16] Compare Hansen, *op. cit.*, pp. 313-338.

business. The principal difficulty would lie in the low average level of profits which is integral to the norm in question.

Legal and Administrative Aspects of the Profit Norm

The normative proposal which emerges from the preceding is for a relationship of price to average total cost such that in the long run enterprise is able to earn only a normal interest return on the replacement cost of the services being provided by the assets in its possession, with the provisos that temporary profits above this level should be allowed for innovators, and that current receipts and noncapital expenditures should be kept in a fairly stable ratio over the cycle. This proposal is specialized to situations where the stimulation of employment is a primary end, and is designed to rectify those aspects of the unregulated pricing system which significantly impede full employment through their cyclical or secular effects on gross income distribution. It thus stems from a theory of income and employment rather than from any blind espousal of pure competition for its own sake. Observance of the conditions of this norm does not seem inconsistent with the effective working of an economy most of the remaining decisions in which would be left to unregulated enterprise. There remains, however, the problem of the legal and administrative implications of such a norm.

The first fact to be recognized in the analysis of this problem is that normative behavior as defined is quite different from that which emerges from the voluntarily adopted price policies of most industrial enterprises, and that considerable positive action on the part of the government would be necessary to secure any reasonable approximation to the norm. Unless appeal to the social instincts of executives would be effective, there are two principal modes of interference available. First, the government might try to modify the structure of markets (including collusive agreements) sufficiently that the unregulated pursuit of gain would automatically result in normative prices. Second, it might leave market structure alone and simply administer a price other than that chosen by the enterprise, through direct regulation, manipulative taxation, government competition, or other means. It seems unlikely that revisions of structure sufficient to modify behavior very much would be consistent with economical production, and even if they were, it is not clear that the behavior attained would be normative in all respects. The alternative, if any, seems to be something tantamount to direct price control. This is a necessary setting for the attainment of normative behavior in concentrated industry.

The second salient point is that application of the norm by any means would be inconsistent with existing law supporting and protecting private property. Such price modification, by abolishing a portion of the

earning power of existing wealth, would amount to the confiscation of property and would certainly run afoul of the due process clause. The application of current judicial definitions of valuation under the doctrine of "fair return on fair value" in public utility cases, for example, would fatally impede the application of the norm in question. Neither statutes nor courts at present distinguish among assets on the basis of the competitive justifiability of their valuations; except in extreme cases any asset bought and paid for is as good as any other, provided, perhaps, that "prudence" is observed in its purchase. It follows that such a norm could be implemented only through a basic amendment to the law of property, together with a general recognition of the fact that the historical origin of any asset valuation is subject to appraisal on the basis of its social merits.

This fact is perhaps unfortunate from the point of view of facile price regulation, but its recognition is essential to the sophistication of any analytical approach to the price problem. The rectification of price behavior, if it is to be attempted, is a problem in legal and institutional reform. It involves the elimination of those features of our law which permit the establishment of a-normative asset valuations and the elimination of such existing a-normative valuations as have arisen in the past under existing law. In addition, it involves the development of a positive standard for the value and earning power of business assets in general. Such reform would be radical, but it is one long step short of social ownership of industry. Unless it is admitted as a part of policy, there is little more than academic interest in the continued discussion of the theory of purely competitive markets, the norm of pure competition, or the substantial revision of existing price behavior. As long as private ownership of the means of production is postulated, the distribution of income and the valuation of assets are paramount results of the workings of industry.

The problem of the administration of normative prices of course remains. A co-operative attitude on the part of the business community must be presupposed first, and this would require development. Intensive studies of each individual industry would be prerequisite to the ascertainment of normative asset valuations. Once the data were assembled, it would certainly be desirable to confine regulation to the determination of the level of rates and to leave the determination of the geographical and product structure of rates as far as possible to the workings of the market. Yardstick competition or manipulative taxation might thus be preferable to direct and comprehensive price administration. In any event, the process of regulation would be expensive and perhaps cumbersome. It is not certain before the fact that normative price regulation is necessarily preferable to fiscal policy, in view of

the considerable administrative advantages of the latter. But it is clear that discussions concerning the revision of competitive behavior are relevant to public policy only if we are willing to focus attention on the market results required and to contemplate the legal, institutional, and administrative concomitants of attaining the revision of market results.

Some Comments on Norms of Allocation and Efficiency

Attention has been directed to this point toward developing standards of price-average cost relationships and of price flexibility, oriented to the alleviation of employment and cycle difficulties. Barring the emergence of a "fourth Kondratieff" of an intensity sufficient to rejuvenate the capitalist economy, these seem to be the most significant dimensions of price behavior. The remaining dimensions of behavior, however, are not without importance, and should be at least briefly considered.

The relationship of the actual rate of use of plant to the optimum rate is obviously important, and was the focus of a good deal of attention in the middle thirties. But it may be re-emphasized that although variations in employment in the short period register in corresponding variations in plant utilization, the rate of use itself in the long run has no unique impact on the volume of employment. A norm for this rate is a norm of efficiency. It is a matter of choice whether or not it is applied in conjunction with the norm of price-average cost relationships, which may or may not presuppose optimum utilization. A second thing to note is that the usual economic definition of optimum utilization varies with the definition of fixed costs, with respect both to their total amount and to their allocation over time. The locus of the output yielding minimum average total unit costs depends directly on the valuation assigned to assets, as reflected in depreciation and interest as fixed costs. It would be precisely defined when all assets had been valued at replacement cost of service as outlined above; the downward valuation of redundant assets thus implied would result in generally smaller apparent optimum rates of use. The locus of optimum output in any short interval within the business cycle further depends not only on the level of variable factor prices and the relation of average variable cost to output but also on the pattern according to which fixed costs are allocated over time. Since any method of allocating such costs is a priori arbitrary, there is no unique method for determining month by month optimum rates of utilization.[17] The concept of the optimum rate is in fact meaningful only as an *average* rate over the life of fixed plant. There is no general standard for utilization at various stages of the business cycle.

The average standard itself, moreover, is of slight use if it is admitted

[17] See J. S. Bain, *op. cit.*, pp. 277-279.

that plants must be built to meet at least approximately the peak load of recently experienced business cycles. In this setting, a degree of average excess capacity depending on the amplitude of cyclical fluctuations must be admitted. It is also difficult to rule out that considerable proportion of excess capacity attributable simply to errors in estimating demand, except insofar as this is accomplished by competitive valuations of redundant assets. In sum, the only operable standard of plant utilization which can be employed will probably have to run in terms of the correction of cases of chronically redundant physical capacity, a phenomenon the quantitative importance of which may be slight. Closer definition of ideal capacity will be possible whenever cyclical fluctuations have been largely erased.

A second relationship of some importance is that between selling costs and production costs. There is a general impression that the competitive policies of modern business result in the allocation of too many resources to dilettante product variation, competitive advertising, cross-hauling, and the multiplication of distributive outlets and of free services offered in conjunction with the distribution. The establishment of a norm of proper allocation in this regard, however, is difficult. The standard of pure competition (no selling costs whatever), which is based on the assumption of homogeneous and nonvarying products, is obviously inappropriate in a world of product differentiation and product development. In view of the difficulty of distinguishing between "rational" and "irrational" consumer preferences, or between a consumer's preferences which are his own and those which are foisted upon him by sales promotion, it seems impossible to derive a substitute norm of selling-production cost relationships which rests on the demonstrable maximization of consumer satisfaction. Any such norm is likely to rest upon belief of its proponents that consumers would prefer a hypothetically simplified situation, or upon a social value judgment placing quantity above variety, service, and other concomitants of the modern distributive system. The development and application of such norms is not necessarily inconsistent with the effective operation of the economy, although any serious modifications of behavior in this regard would violate a cherished article of business faith. In any event, it should be recognized that such a modification of behavior would impinge definitely only upon allocation, and in uncertain fashion upon employment.

A final relationship built to a position of unusual prominence in theoretical economics is that between price and marginal cost. It is sometimes suggested that if all prices are equal to marginal costs (as in pure competition) or, alternatively, if they are all proportional to marginal costs, the allocation of factors among uses is ideal from the point of view of consumer preferences. The validity of this norm as ordinarily

stated is subject to serious question. In the first place, a norm of allocation which takes the distribution of income and wealth as given (except as modified by its own application) is rather hollow from the outset. Second, the character of the allocation norm suggested depends directly not only upon the slopes of the marginal cost curves as determined by the conditions of return within the firm but on the level of these curves as determined by the prices of the suppliers of factors and materials from whom the firms in question purchase. The allocation norm is not fully defined, therefore, until some condition is imposed upon the relation of suppliers' prices to their average costs. Price-marginal cost equality in a purely competitive, long-run general equilibrium is thus a quite different norm of allocation from price-marginal cost equality or proportionality in a concentrated modern economy where no further strictures are applied. As an independent standard for allocation, it is the most tenuous sort of an ideal. Unless applied as a general equilibrium condition, it is no ideal at all.

Some precise norm of allocation presumably can be developed in conjunction with related norms of price-average cost relationships and of income distribution generally. It faces the difficulty, however, that its attainment in a concentrated economy may be inconsistent with the attainment of the related norms, and that if this is the case, the latter norms are paramount as long as private ownership of productive wealth is postulated. It does not seem that the norm of price-marginal cost relationships is one to which primary attention can properly be devoted in a capitalist economy. This is perhaps fortunate in view of the fact that of all norms it would unquestionably be the most difficult to implement as a matter of policy.

Alternatives to Government Price Policy

The preceding discussion is concerned with the development of norms of price behavior for imposition upon a capitalist economy which would, except for the interferences defined, be left to its own devices. It is interesting to note that normative price behavior in a system still retaining the private ownership of capital goods is necessarily defined differently than normative behavior in a socialist economy. In the former case, the distribution of income and the valuation of capital assets are paramount issues, both on general grounds and because of their effects on the level and fluctuations of money income and employment. Attention is properly centered on the relationship of price to average cost. In the latter case, where the earnings of capital would be received or directly limited by the state, and where the employment problem is by assumption eliminated, the valuation of assets is no longer a primary problem. It is then quite proper that attention be focused upon the

relationship of price to marginal cost—short-run marginal cost in the short run and long-run marginal cost in the long run. A properly defined allocation ideal of universal price-marginal cost equality could be imposed, and asset valuations would be implicitly defined as the capitalization of the returns accruing in such a situation. The resultant effect on the distribution of income between labor and government owned assets would not be a matter of consequence. The principal error into which some have been prone to fall is the confusion of capitalist and socialist economies. The ideals of behavior appropriate to the two cases are not necessarily identical.[18]

If a capitalist system of ownership is to be maintained, however, it is still an open question whether government price regulation should become an important article of policy. It may be argued, for example, that if stagnation continues, redistribution of income could be more easily effected through a program of steeply progressive income taxation. Such a program may appear politically more feasible, and would avoid the loss of whatever advantages inhere in a "free" pricing system of the modern sort. There would be little merit, therefore, in concluding this argument with a dogmatic proposal of a unilateral policy of price regulation. Progressive taxation, compensatory spending, and price regulation should be complementary means to a single end. In assessing the relative weight to be carried by taxation and price control, however, certain further considerations must be entertained.

A taxation policy of redistributing income labors under the difficulty that it permits the pricing system to perpetuate an a-normative distribution of income, and only taps it off after it accrues. If taxes are heavy enough to be effective in the alleviation of unemployment, moreover, it devolves upon the government to distribute an important share of the national income without reference to the pricing system, and with doubtful effects on economic incentives, responsibility, etc. Some version of the Beveridge plan might be acceptable in an absolute sense, but it is not obvious that it is preferable to redirecting the flow of income produced by the pricing system. The tax policy has the further property that as administered it would presumably confiscate incomes on the basis of their size rather than their source. It would thus reach incomes from large pools of competitively valued assets which are untouched by any price norm, but would not impinge upon small incomes derived from monopolistic asset valuations. Finally, it would have no predictable impact on the manner in which the free pricing system performed its allocative and other functions, neither rigidifying nor rectifying the system.

[18] Unless in capitalism pricing is arbitrarily assigned the allocative function as its main task, and income distribution is taken over by the state to be modified as necessary by tax policy.

Insofar as price regulation was effective, it would allow a larger share of income to flow outward through the pricing system, and might thus be less unfavorable to free enterprise than appears on the surface. It would differentiate among incomes on the basis of their source, but would require supplementation to reach large incomes from competitively valued assets. Direct government price administration, of course, might unduly rigidify the whole pricing system, but simpler alternatives accomplishing the same purpose, such as yardstick competition, might avoid this difficulty. And although prices regulated so as to produce a normative income distribution would not lead to ideal allocation of productive factors, there is little reason to suppose that they would make allocation less desirable than it is in the absence of any regulation.

We may leave the choice between these policy alternatives to taste and to political and administrative expediency. With respect to the alternative of government price policy, insistence is called for only upon the necessary character of such a policy if it is undertaken. It can be basic in character only insofar as it impinges specifically upon price and market results. When it does so, and in particular when it bears upon the dominant relationship of price to average cost, a considerable legal and institutional reform is integral to its effective prosecution.

USING PRIVATE BUSINESS AGENCIES TO ACHIEVE PUBLIC GOALS IN THE POSTWAR WORLD

By LEWIS H. BROWN
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It is with some temerity that I appear before the American Economic Association. Your members, whose deliberations are grounded in the quantitative data of economics, have presented papers giving with some detail economic blueprints for certain parts of the postwar economy. Your President asked for a layman's point of view on the utilization of private business agencies to achieve public goals in the postwar world.

In undertaking this assignment I want it distinctly understood I am appearing before this highly professional gathering as a layman, talking in a businessman's simple language. The economist must appraise long-term trends. The businessman's approach is usually limited to the short-term future. He must think in terms of budgets, operating schedules, of plans which usually cover only a year or two ahead; or if a program covers several future years, it is usually a problem limited in scope, definite in objective, and based on past experience from which can be derived concrete facts and trends that aid in forecasting futures. Thus you see that in discussing anything as indefinite in time as the postwar period, and as intangible as an assumption of what that far-off era is to be like, I must deal with wholly unfamiliar premises. Concerning the future, there are as yet almost no known facts, and but little theory upon which to go.

At the outset, let me strongly emphasize one point: Presently one supreme task confronts us; there is one job to do. That job is to win the war! We *must* win—no matter what the cost or how great the necessary sacrifice. Every businessman will echo that sentiment. Fortunately since the first World War, we have learned a lot. As we approach the problem of consolidating an inevitable victory, we must strive to build a peace as nearly indestructible as may be devised by the genius of man.

To try to look ahead to the postwar future is, of course, desirable; but while we are in a deadly global war, fighting for our very survival as a nation, I have little patience, I confess, with those whose eyes are fixed solely on the postwar future, who are intent only on drawing a pretty picture of what the world ought to be, while we do not yet know exactly how the existing world is to be saved.

I feel that I should at this point attempt to dispel two common misconceptions about businessmen. Many persons labor under the illusion that businessmen desire to "go back to the good old days of the nineteen twenties," and that they always want to maintain the *status quo*.

Both assumptions are fallacies. Permit me to say, as one who became the head of a large corporation six months before the crash of 1929, that I have no desire to go back to the good old days of the twenties. Nor do I want to live over again the depression and experimentation era of the thirties. I will rejoice when we have behind us the first half of the forties—these days of a bureaucratically controlled economy made necessary by war. I look forward to the postwar future in the hope that we can profit by the mistakes of the twenties and the errors of the thirties, and the lessons of war in organizing a better way of life for all of us here in America.

The businessman of today is not afraid of "change." Change is the essence of progress. It is the motive of modern research. We can be sure tomorrow will be different from yesterday. We must strive to make it better.

Industrial research is the actual process of improving on the present; always the goal is new and better things. Any business that, in times like these, attempts to stand still or look backward is doomed to extinction.

With these few preliminary statements, permit me to sketch with broad strokes the background for an answer to your question concerning the postwar future.

What do we mean by a postwar world? Everyone is entitled to his own definition based on his guess as to the duration of the war and the nature and circumstances of the reconversion process from war to peace. For my purposes here I shall assume the Axis nations will not all be defeated before 1945, and that in the United States the major reconversion from a war to a peace basis will take three years, up to the end of 1948. I will define the postwar period as the time after 1948. Now what do we mean by public goals? The goal for which we are supposed to be fighting this war has been defined by the leaders of two of the United Nations in the Atlantic Charter as "the four freedoms." Freedom of speech and freedom of religion are accepted almost like the air we breathe by the English speaking nations. Probably to the rest of the world these are rights greatly desired but enjoyed only in part. Freedom from fear of aggression and violence by neighbors against person or property has been sought by men ever since civilization began. Progress has been tremendous, but painfully slow. We must, if possible, go forward, but we will again be disappointed if we permit wishful thinking to obscure sound judgment. If freedom from fear also means alleviation of fear of ill-health and, in old age, fear of destitution, we doubtless can, by individual and collective action, move far toward this goal. Freedom from want, especially in countries blessed

with productive land and an abundance of raw materials, is certainly attainable if we define our wants as necessities.

However, in my limited time I must confine the term public goals to a much more limited scope than the four freedoms. I will confine myself to an intermediate goal which, if attained, will supply the means for at least some of the four freedoms or, in any event, go far to supply health, home, happiness, and hope to most of our citizens. I refer, of course, to the problem of providing a reasonable measure of employment for all citizens able and willing to work.

This question of employment has been the major problem of Europe since the dislocations of World War I, and of our country since the crash of 1929.

The gravity of the crash that followed 1929 in this country should not be minimized. The Great Depression at its bottom left 12 to 16 millions entirely unemployed. Many additional millions worked part time for part pay. It wiped out 10,000 banks and untold billions of savings. It reduced the majority of commercial farmers to near bankruptcy. In Liverpool, wheat was quoted in 1932 at the lowest recorded price since Queen Elizabeth. Short-term unamortized mortgages could not be paid. As a result real estate could not be sold at any price. In Chicago, building permits dropped to the lowest level since the Civil War. Building of home units throughout the nation dropped from 1,000,000 in 1925 to less than 50,000 in 1932. The Great Depression, conservatively figured, cost us, as a nation, 350 billions in nonproduction.

You economists have each your own theories as to the cause of the boom of the twenties and the collapse of the early thirties. Irrespective of the causes, the fundamental fact is the world had not in one hundred years experienced a decline of the business cycle of such magnitude. There was no precedent in the new industrial world for government to supplement the economic machine or to intervene on any such scale as some now believe was required to restore economic balance.

The great mistake of the first years of that depression was twofold: (1) failure to understand that the downward dip in the business cycle was a depression of unprecedented magnitude which could not be cured by "temporary" expedients; (2) failure to understand how to get the economic machine functioning again after it got out of balance and stopped.

To the everlasting credit of the Administration, vigorous action was applied to the problem. Some of the acts were inconsistent with others and showed little understanding of how the economic machine worked. Early measures were partly temporary expedients applied in the hope

"of getting us through the coming winter"; nevertheless they were evidence of an earnest and vigorous endeavor to find and remove the cause.

Some of the steps were: placing of a moratorium on foreclosures; the rescue work of the Reconstruction Finance Corporation and the Home Owners Loan Corporation; shortening hours to spread work; increasing wage rates; unemployment insurance and old age pensions; adoption of a public works and relief program; insurance of bank deposits; encouragement of building through insurance of marginal risks under the Federal Housing Administration. These were all encouraging steps in the right direction. In principle they had the support of businessmen even though the methods of applying the principles often partially nullified the good. Even though skeptical of some of the schemes, businessmen "went along" in an earnest effort to help bring about recovery. The co-operation between business and government was excellent and the results were definitely encouraging.

One act in particular shows the way government can properly utilize private business agencies to achieve public goals. Since I helped draft the original act and mobilized the construction industry of the country to help get it passed by Congress, I have firsthand knowledge of its origin.

When the Federal Housing Act was first under discussion in January, 1934, there were many in government who proposed that the government lend money direct to home builders. They argued that the government could borrow at 2¼ per cent and should lend direct at that figure, paying out of taxes the cost of making the loans and for any losses. This was typical of an all too prevalent approach apparently activated by a philosophy that the government should do everything for everybody.

Some of the rest of us, representing the opposite viewpoint that the proper function of government was to help people to help themselves, contended that the banks, the insurance companies, the saving and loan associations, the realtors, the whole system of building contractors and material distributors, could do a better job than any new bureaucracy that could be set up, and could do it at less cost. We argued for insurance of the marginal risk from a fund set up by a premium paid by the home builder and with a system of amortized mortgages covering a period of ten to fifteen years, to protect the home owner against mortgages coming due during depression times.

Under this Act there have been loans amounting to 1,650 million dollars made for Modernization Title I, with a loss to the government of 40 millions. Under Title II there have been close to a million loans

to home builders totaling 4.2 billions, with a loss to date of less than $143,000.

The organization administering the Act has, in my opinion, been larger than necessary, but even so the cost has averaged less than 14 millions per year. The Federal Housing Act has been called the most successful of any innovation in the past ten years. In home financing it has revolutionized the mortgage banking system of this country. Here is an example of governmental stimulation of private enterprise as compared to competition with private enterprise.

In contrast to the FHA we have the experience of the Tugwell Towns; of the TVA; of paying subsidies *not* to produce what could be consumed; of punitive taxation; publication and limitation of incomes; extermination measures of SEC; and such projects as the Florida Ship Canal and Passamaquoddy.

It is not by such measures that we bring about co-operation and restoration of confidence, nor the full utilization of private agencies for achieving of public goals.

Favorable reference is made to the Reconstruction Finance Corporation, to the Home Owners Loan Corporation, and to the Federal Housing Authority, not so much for the rescue work which they performed, as for the principles which governed their operation. These principles differed fundamentally from those which were operative in programs to redistribute wealth, to give relief through unproductive work, or to create needless governmental spending for spendings sake alone.

In the Federal Housing Authority, government and industry came closer, in my judgment, to real co-operation on sound constructive lines than was reached in any other field.

Here was a kind of planning which produced very tangible results, which stimulated the recuperative processes necessary to full recovery without arousing, at the same time, the fears of investors as to whether or not the free enterprise system would survive. Here was government aid functioning as an accelerator to human initiative and resourcefulness. This procedure relaxed restrictive brakes upon the national economy which were being applied through the wrong kind of governmental planning.

It was on this crucial point that, through the past decade, businessmen have differed with government economic theorists. It is here the difference was most manifest between the political approach and the business approach to the problems of recovery.

One philosophy involved the stimulation of confidence and co-operation on the part of all elements in the economy so they could work

together toward a definite objective. The other philosophy, by its very nature, stimulated suspicion and distrust and thus created fears which paralyzed confidence.

For example, while the government with its right hand was endeavoring to help the banks to help themselves through the RFC, at the very same time with its left hand it was competing with the banks through numerous lending agencies which had been established to deal with so-called "emergency" problems. Doubtless the motives of these government planners were sincere. Yet the net result was to create in the public mind distrust of possible unrevealed collectivist objectives for the future. That suspicion served to neutralize much of what the government was trying to do. Thus, the troublesome problem of unemployment, although eased, was never solved. As a result, every businessman, big and little, began to get the idea that government had taken on a job and a responsibility bigger than any government ought to assume or could carry without eventual financial disaster through excessive inflation, repudiation, or by conversion to some form of totalitarian government. This generated the fear that slowly but inevitably the private enterprise system was being secretly liquidated.

If we are to build soundly for the postwar future, it seems to me we must proceed according to the principle, learned at such great cost in the past decade, that no government should enter into direct competition with its citizens, and that the government of a representative democracy cannot do everything for everybody.

Bureaucratic planners' theory on this point reminds me of an incident that happened out in Iowa where I grew up. Every farmer had a milch cow. A natural rivalry existed among all the neighbors as to whose cow could produce the most milk. One farmer, thinking to outsmart the others, evolved an entirely new theory as to how his cow could be made to produce more. He figured that if he could speed up her digestive processes, she would consume more food and, therefore, give more milk. So he would go out three times a day with his dog and chase the cow around and around the pasture. Needless to say the cow soon went dry. The farmer with the novel idea failed to realize that nature had designed the cow to function along entirely different lines.

The private enterprise system has its natural way to function. It can produce jobs in abundance so long as it can have plenty of the right food and chew its cud of confidence without being chased all around the economic field by a lot of governmental experimenters with new, untried, and unsound theories. You cannot use a club to chase the business system around the pasture without drying up the whole productive process. You cannot successfully approach the problem of obtaining greater co-operation between business and government, be-

tween business and labor, and between labor and agriculture on the basis of mutual hostility and truculence.

Perhaps it is too early for us to look at this chapter in our history from the sound and unemotional pinnacle of historical perspective and logic. Nevertheless we ought at least to try to distill out of these experiments with the lives and security of 130 million people whatever we can of the virus or cause of our illness, so we may develop a preventive against the same mistakes in the postwar future.

The American way of life and our private enterprise system are predicated upon incentives which develop enterprise and stimulate people to work. To help others to help themselves has been, for a hundred and fifty years, the successful basic principle underlying the American way of life. Now a vast abyss is fixed between this sound, simple principle and the benevolent paternalism of a supergovernment which attempts to work on the reverse philosophy of trying to do everything for everybody.

As in retrospect we consider the turbulent thirties with their currents of cynicism on the one hand and on the other a fervent faith in Utopia, we can see the conflict which was under way between these two concepts. A large part of our people, mindful of the old traditions, were fighting desperately to maintain our heritage won through the centuries of struggle—political freedom, economic freedom, and religious freedom. The new theorists scoffed at them for their "rugged individualism." For the scoffers had a philosophy—that the state was all-important; that the state could bring to pass the millennium. Expressed in another way, that basic conflict was between men who undertook risks to better the lot of man in return for rewards, under a system called "private enterprise," and those who believed government officeholders without adequate experience had suddenly been endowed with a magical ability to operate a great, complex economic society. These bureaucrats believed a little untried theory and plenty of compulsion would accomplish more than a lot of experience and plently of hard work. These two fundamental concepts can be epitomized in two words: opportunity expresses the first; security the second. The first group strives for multiplication of wealth, and the second group for division of the wealth already created.

Now the pathological condition which lay at the root of this kind of thinking is not limited to America—it is world-wide in extent. Abroad it helped develop the Marxian doctrines of class consciousness, class warfare, and open advocacy of destruction of individualism and the substitution of state ownership of all means of production. In this country, likewise, the movement took root, but in a somewhat different form.

Marxism sought to tear down; its premise was that a new economic order could be built only after an old one had been destroyed. American liberals in their thinking have not been quite that ruthless. Instead, the effort has been to build a new order inside the old order, so that, by throwing a switch, we could start off with a new economy and discard the old one. The label "reform" was used, while the real purpose, in the opinion of many, was just as far-reaching as Marxism itself. For a decade we have tinkered and experimented; we have tried deficit financing and one economic formula after another. But, despite the pulmotors and all the artificial stimulants, the national economy never seemed to get strong enough to stand on its own feet.

This period of economic experimentalism ended, at least temporarily, with Pearl Harbor. While the problems we face now are bigger and more serious than ever before, yet at least we have won a spirit of national unity and of co-operative effort which we did not have before. The specter of unemployment has been banished through the placing of billions of dollars worth of government orders for war materials into the sales hoppers of a relatively small number of large corporations. Temporarily those deep haunting fears which have had such a baleful influence over American political life have been quieted.

We have won, perhaps, nothing more than a breathing period. Let us hope it will be sufficient for us to rediagnose these past ills so that, while there is yet time, preventives can be developed against repeating, after this war, the mistakes which were so disastrous after the last one and in the Great Depression.

We have a choice of directions to follow. We have a choice of instruments to use. But we cannot possibly reconcile the principle of democracy, which means co-operation, with the principle of governmental omniscience under which everyone waits for an order before doing anything. That way lies loss of freedom, and dictatorship.

As an industrial engineer, I visualize for comparison the free enterprise system and the totalitarian system by imagining each to be a machine and each propelled by a different kind of engine.

There is the totalitarian machine driven by a powerful, heavy steam engine familiar to those of us who are industrial engineers. Its motive power is sweat converted to steam by the heat of compulsion. It is lubricated by fear. Usually its control emanates from the central plant. It is large, cumbersome, and complicated and needs an unusually expert man at the controls. It has real power and, after it gets going, can deliver lots of energy. Its operation and efficiency are strictly limited by the training, experience, and capacity of its engineer and his assistants.

The free enterprise machine, on the other hand, is activated by the

compact, easy-to-operate, flexible gasoline engine. Its fuel is human aspiration ignited by self-interest and it is lubricated by individual ambition and initiative. It possesses the power to do almost anything and goes wherever the people may guide it. The driver is the ordinary citizen who needs only a few rules to help him guide it so as not to endanger others. It needs no fettering central power plant. It needs no special tracks. It runs on the right-of-way of freedom, available to all.

To win the war we have converted our governmental-economic machine over from a gasoline engine to a steam engine. After the war, we want the limitless advantages of the private enterprise gasoline engine.

As an industrial engineer, I believe the private enterprise machine—streamlined—is the best from all standpoints to propel the American Nation to new heights of spiritual, cultural, and material progress. I would recommend it as the basis of our design for the postwar model of the American way. I believe the American people will prefer for peace the private enterprise machine controlled by the people.

As I read the pronouncements of many men in power today throughout the world about what *they* propose to do in the postwar world, I wonder if they have forgotten that someone else may be occupying the seats of the mighty, trying to direct the destiny of the world in that postwar era? I am convinced the American people, themselves, will decide what kind of a machine and engine they want when they write the closing paragraph on the last page of our history of World War II.

In that very fact lies the need for the American people to be thinking now and making up their minds as to what they want in the postwar world. The foundations of the postwar world are being laid right now —though not necessarily by the war leaders.

The future of America is being hammered out right now in the souls of our fighting men at the front, in the minds of the workers in the factories and on the farms, in the hearts of our American women, to be expressed in the acts of Congress over the next two or three years.

Out of the lesson of unity learned in war we must find some co-operative compromise to make the general welfare the joint responsibility of the people, the government, business, labor, and agriculture. We shall have demonstrated that our representative republic is more efficient than any totalitarian state and in addition preserves freedom. We must find a way to distribute equitably the products of our economic machine without destroying the machine.

We must remove every obstacle that impedes private enterprise in doing its full job. Like Mark Twain's character, Tom Sawyer, who gave inducements to his playmates to whitewash the fence so that the

more he got them to do, the less he had left to do himself, government must pursue the incentive plan with the people.

In the thirties, government tried the opposite way. The more government took over, the less of the burden private enterprise could carry; the more of the burden government tried to carry, the more red tape tangled up, the more inefficiency developed, the more bureaucracy expanded and confusion grew.

Tom Sawyer was an organizer. He offered inducements to get others to do what he knew needed to be done. What they left undone was a burden he could carry.

When you ask how government and business can make the economic machine work better in the postwar world, I answer, by learning to co-operate—to be mutually helpful, to recognize the proper function of each in our social structure. To avoid dictatorship, we must encourage the private enterprise system to carry the load of providing employment to the utmost, so that government's load will be at a minimum.

But then some economists will say, what about the portion private enterprise cannot do? If the savings of the system are not reinvested promptly so as to provide work for all, should not government intervene in the economic system to stimulate and assure reasonable employment for all? In reply, I say that if, with every encouragement and inducement, private enterprise were not to provide reasonable employment for all, then the government, by means of guarantees to private enterprise and through its procurement staff, should place orders with private enterprise for sufficient public works and products to supplement and fill the gap left unfilled by private enterprise.

But even when the government intervenes, if it is not to thwart its own purpose, it must do so by means consistent with the basic design of the engine it has chosen to sustain the American standard of living. We should never again, as we did in the thirties, try to put totalitarian water in the freedom gasoline and expect the enterprise machine to work properly.

There is nothing to prevent the attainment of our goal except our own failure to find out and understand how our social-ecomonic-governmental machine works best.

In my opinion, we can make it work. We do not need to change over to an entirely new machine or resort to a very obsolete type. All we need do is to streamline and properly gear up the great American enterprise machine.

As I said in the beginning, businessmen build futures based on change. We shall not be satisfied in the postwar world of 1950 with the old enterprise gasoline engine, model of 1925. We stand committed to a new model. But not merely *a* new model. We ask for changes in

the American way consistent with the basic design of our engine, based on improvements tested on the proving ground of practical experience.

Moreover, we know there is more to the life of a nation than merely the political and economic machinery by which to provide reasonably full employment. Health, home, happiness, and hope are our end objectives. Employment is only one means to these ends.

And so we must re-educate every man, woman, and child to a deep faith in our destiny. The American way is an ideal way of life citizens are willing to fight for—to die for if necessary. We must realize that working together and sacrifice in the common cause are just as necessary in peace as in war.

We must rebuild America. We must not destroy the system that has made America great. Instead, we must use incentives to stimulate private enterprise into channels beneficial to the good of all. Prosperity for America lies not in limiting opportunities for some but in expanding opportunities for all. Honor and pride, properly appealed to, will put service in the common cause first, and the desire for profit second, as has been proven by this war. Co-operation, not conflict, must guide government, business, labor, and agriculture in their service to our people. From this new spirit and co-operation can come a new America that will be the Eldorado of the whole New World.

DISCUSSION

Frederic B. Garver: These two papers by Mr. Brown and Commissioner Durr show difference in scope but no wide divergence in recommendation or in forecasts for the postwar economy of the United States. There is, however, latent in their approach to the problem a much greater contrast. Mr. Brown would have a complete withdrawal of the government from all direct participation in the production of goods and services for sale in the competitive market. The arguments by which he supports this position include (1) the historical, where, aside from the collapse of the thirties, the facts are with him; (2) the greater flexibility and variability of private enterprise as compared with governmental activity; and (3) the gains from individual initiative. The fact that these are time-honored, even aged arguments, detracts nothing from their weight. But this type of argument overlooks the fact that by its own evolution business in this country has partially removed the significance of arguments "2" and "3." The question which I should have liked to have debated is thus not the one that Mr. Brown has chosen. That question is: With the growth in the size of firms, the development of price policies, and the improvement of trade association information, is not much of the drive taken out of private initiative and much of the variability and flexibility of private enterprise removed? There must be added to these evolutionary tendencies as dampers on initiative and flexibility the growth of trade unions and of governmental regulation.

One gets the impression that Mr. Brown is pouring old wine of excellent vintage into old barrels, some staves of which are rather rotten and some others damaged by forces beyond the businessman's control. There is an indication that he suspects this when he says that if in the postwar economy private business is unable to furnish full employment, the government should somehow guarantee or secure the prospect of profit for private business or engage in public works to take up the slack.

Commissioner Durr concedes that government operation of a large part of the economy is out of the question by reason of the magnitude of the job and the size of the governmental organization, thus conceding Mr. Brown's main point. But he would guard against restrictions on business opportunity and on competition by (1) regulation and (2) government competition (the yardstick). And he would have direct government initiative in the provision of goods and services that are socially desirable but which for one reason or another will not be undertaken by private business, which is at least reminiscent of Adam Smith's doctrine. But even in this latter case he recommends the leasing of the physical plant to private operators. Here one questions whether he is thinking only of the utilization of the munitions and similar plants or of such projects as the TVA. He believes that the government's refusal to sell outright will guard against the scrapping of plants and the growth of monopoly. It appears doubtful to the discussant that leasing would have that effect unless the contracts were especially drawn to prevent the opposite.

Mr. Durr also recommends modification of patent laws, following, presum-

ably, the TNEC reports and monographs. This ought to be done, but "reform" does not mean visiting "retribution" on the fortunate.

One other recommendation or suggestion—that of extended price fixing if other methods of monopoly control fail—shows the difference in approach of the two papers. Apparently Mr. Brown is not much concerned with that danger. And in the discussant's opinion it is an overworked topic. That the economy of this country was becoming, in certain segments, inflexible and unprogressive after (or before?) 1920 cannot be denied. Yet in some lines, such as automobiles, where the opportunity for a good oligopoly was present, there was good if not ideal flexibility and progressiveness. The faults of private enterprise may well have been a temporary phase of competition; but at any rate it was not monopoly of the classical type that was to blame.

Mr. Durr's proposal of wider use of price regulation (on the public utility model?) would introduce problems of such vast complexity, if carried far, that one wonders whether he really has too much confidence in private enterprise. For the enormous difficulties encountered in public utility regulation, which have only been slightly meliorated by recent court decisions, are, of course, well known to him. The discussant would prefer, therefore, to go with Mr. Brown but he would like to modify that writer's "plan" to read: Give private enterprise another chance to show what it can do with government encouragement, and if it fails to provide full employment, an expanding opportunity for investment and work, and a rising standard of living, something quite different will have to be tried.

R. A. Gordon: While I shall devote most of my remarks to Professor Bain's interesting paper, I should like first to comment briefly on the other two papers on this program.

Commissioner Durr and Mr. Brown are at opposite poles in their conclusions and recommendations. Much in Commissioner Durr's presentation strikes a sympathetic chord in my own outlook on the problem being discussed. I call your attention particularly to his conception of a *responsible* administrative government—responsible to Congress, which in turn is responsible to the people. This is the view to take if we want to preserve democracy. If the administrative branch of the government, no matter how extensive its functions, is truly responsible to an informed Congress that truly serves the will of the people, democracy will not perish because government plays a more dominant role in economic life than it did in an earlier day.

Commissioner Durr's concrete proposals bother me, however. I wonder if he realizes how drastic some of them are, and how incompatible they are likely to be with the framework of private enterprise that he would apparently retain. We may pass over the familiar suggestion for planned public works. But when Commissioner Durr recommends government financing of industrial projects in the postwar world and further suggests government selection of managers for these plants, government ownership of some plants and their leasing to private operators, and entrusting to government the power to require production by private firms, is he aware of all the implications of what he suggests?

None of these proposals in and of themselves frightens me. They have all proved highly effective in wartime, and under certain conditions they might work in peacetime. Given responsible government, they do not threaten democracy. But they do threaten private enterprise. Given the attitudes, preconceptions, fears, and general outlook of private enterprise, any such plan as Commissioner Durr suggests, at least if undertaken on any sizable scale, would have the most serious consequences on the willingness of private business leaders to carry on their operations. Commissioner Durr's proposals, at least the more radical of them, are incompatible with a private enterprise system, based on price and profit, in which businessmen are left to make their own decisions as to what and how much they will produce. It is true that the measures Mr. Durr suggests are working now in wartime. But today businessmen are producing for reasons that supersede profit and without more than passing consideration of their own views as to profit prospects in the future. Unfortunately, this state of affairs will end with the war. Businessmen's interest in production rather than profit does not carry over into peacetime goals.

When the war is over, business confidence will again be a dominating factor in the composite of influences determining the volume of employment. Given the background and viewpoint of our leading businessmen—of whom I should judge Mr. Brown is not an unrepresentative sample—business confidence and private investment cannot be maintained with the sort of government measures Mr. Durr suggests. This does not necessarily lead to the conclusion that Mr. Durr's suggestions should not be adopted. If the alternative is to return to an era of as much unrestricted private enterprise as Mr. Brown apparently advocates, I should certainly urge their adoption. But I would warn Mr. Durr that the ultimate outcome will be the abolition of private enterprise in the greater part of industry. I did not gather that he recognized this as a necessary corollary of the role he is advocating for government. I suspect this will be the eventual outcome, although a period of reaction and of lessened government regulation may come in the immediate postwar years. But however far government intervention in industry may go, I for one shall not be alarmed that democracy will exit with private enterprise—so long as we can have the sort of *responsible government* a brief picture of which Mr. Durr has drawn for us.

Let us now turn to Professor Bain's interesting attempt to relate price theory and policy to employment theory and policy. If I understand him correctly, he proposes to eliminate excess profits in industry by, first, making price equal to average cost in all lines, and, secondly, reducing average cost to the point where it represents merely the replacement value of services rendered.

The purpose of this twofold proposal is, by creating a shift from profits to wages, to equalize somewhat the distribution of incomes, thereby increasing the propensity to consume. Professor Bain assumes that the favorable effect on the propensity to consume will be greater than the unfavorable effect on the propensity to invest. Thus the government price policy advocated would have a net favorable effect on the (secular) level of employment.

Professor Bain's paper is an important contribution to economic theory. It is one of the few attempts thus far made to integrate price analysis with the theory of employment. However, as a practical proposal and as a guide to policy, the thesis of this paper can be dismissed. I shall mention here a few of the more important and obvious objections.

The proposal to revalue all assets, so that costs will reflect merely the replacement value of services used in production, is obviously completely impractical on both administrative and legal grounds. The books of all firms would have to be audited, and in many cases arbitrary valuations would have to be imposed by government accountants. As Professor Bain admits, a revolution in our scheme of property rights would be involved, and expropriation of property—running into direct conflict with the Constitution and a century of judicial interpretation—would have to occur.

Whatever cost basis was used, the attempt to pin price to average cost would entail direct price control on a wartime scale, and would involve an even greater degree of government regulation, supervision, and interrogation of individual firms than that which makes OPA anathema to so many business firms today. It is inconceivable that the public would tolerate this as a "normal" peacetime phenomena.

If the primary aim is to bring about greater equality of income, there are far more direct methods of achieving this goal than this particular approach through price policy. Why not redistribute wealth directly, through taxation and other means? Large business firms no longer belong to single owners but to groups of stockholders. Steps taken to diffuse corporate ownership automatically redistribute profits and to that extent make less unequal the distribution of incomes. A shift from profits to wages equalizes incomes because the average income of the profit receiver is greater than that of the wage earner. Perhaps we can help Professor Bain achieve the desired redistribution of income by redistributing corporate ownership, without, through price regulation, shifting income from profits to wages. And if we do wish to reduce the income of the profit receiver, certainly the corporation tax and progressive personal income taxes offer more direct methods than his approach through price policy.

I am also bothered by Professor Bain's handling of the question of necessary profits. He would allow in cost (1) interest on the revalued assets and (2) a risk premium. All profits above these are "excess." He would reward the innovator by allowing him to retain a part of cost reduction if the innovation is cost-reducing, or by giving him a subsidy if the innovation is the introduction of a new product. There are the most serious administrative difficulties in this method of rewarding innovation. Innovations do not occur at rare intervals but every day. Cost reductions do not always occur in large steps; sometimes they are more or less continuous. And when are cost reductions and product changes by particular firms "innovations" and when not?

Also, how would Professor Bain calculate his necessary "risk premiums"? If they are truly risk premiums, losses in a given industry should offset the premiums earned by successful firms over an indefinitely long period. Actually, business risks are not calculable by the nature of the case; but presum-

ably businessmen demand some return over and above pure interest on their investment. I am afraid Professor Bain would speedily have to choose between forcing firms out of business or allowing them some "excess profits."

It may be observed also that Professor Bain includes "competitive rents" in allowable costs. I wonder why—particularly if he is interested in redistributing incomes. If they are "true rents," they are not necessary costs, in the sense that output would be restricted if they were eliminated; yet these rents are important sources of large incomes.

I should like to return for a moment to Professor Bain's proposal for revaluing assets. If he were here I should like to ask him how relevant this part of his argument is to the aim of redistributing incomes and thereby affecting the volume of employment. Is it that costs so calculated represent the minimum level of necessary costs, any reduction in price below this point leading to a curtailment in output? I question whether this is so. While this theory of income determination and asset valuation may have relevance to the achievement of equilibrium in a hypothetical economic system, I fail to see its particular virtues as a benchmark for price policy in the real world. Personally, I should place at least as much emphasis on the "competitive rents" which Professor Bain would leave untouched.

Of course, both Professor Bain and I are talking in terms of extreme abstraction if we do not relate the type of price policy being discussed to wage and labor policy and to similar questions. I suspect that fruitful suggestions—perhaps more realistic than those here being discussed—might come from a study of the type of wage and labor policy which would have the most beneficial effects on the volume of employment and of the type of price policy which would need to go with such wage and labor policy. Whether we operate upon the level of employment through the propensity to consume and the distribution of incomes or whether through profit expectations and the propensity to invest, we can hardly ignore wages both as cost and income.

Thus far I have discussed the relation of price policy to the secular level of employment, with which Professor Bain's paper primarily concerns itself. He also has some suggestions to offer as to the type of price policy which might help to combat cyclical instability. Lack of time prevents my discussing this section of Professor Bain's paper, except to observe that I should advocate a greater degree of price flexibility over the cycle, particularly during downswings, than the author would apparently subscribe to.

I cannot conclude without paying tribute to the stimulating nature of Professor Bain's paper and without pointing out that he frankly acknowledges the practical difficulties in the way of incorporating his proposals into actual policy. He has set himself a question: how might price policy be used to serve a particular public end; namely, increasing and stabilizing the level of employment. He has carried through a thought-provoking investigation of that problem, at the theoretical level and from certain basic premises. In terms of practicability, the results are largely negative. But there is a suggestion here which I hope that other economists, in the fields of both theory and policy, will choose to follow up. We are just beginning to ask the right questions as to the relations between price behavior and the volume of employment.

THE DIVISION OF LABOR BETWEEN GOVERNMENT AND PRIVATE ENTERPRISE

By Fritz Machlup
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I have the difficult task of weighing, in a short paper, the comparative merits of the claims of superiority of private enterprise and governmental prerogative in the economic sphere; and the still more difficult task of arriving at conclusions concerning a successful division of labor between private and collectivist powers in matters economic. I realize with trepidation the disproportion between the size of the task and that of my ability. I feel very uncomfortable handling this explosive mixture of personal value judgments and objective analysis, especially since much of the analysis, necessarily, is the product of others, accepted by some, rejected by others in the profession, and most of it incapable of scientific proof.

I. *Preliminary Orientation*

This discussion will not indulge in predictions. I do not know what the future order of things will be like. I believe that our future is not shaped by blind forces or inevitable trends or irreversible evolutions, but largely by our own volitions. While it may not be my volition or yours which will finally count, we all have some influence on the course of history. This makes discussion important. We ought to be clear as to what the alternatives are and what their promising and dangerous, attractive and distasteful implications may be. It is untrue that we have no choice. Nor is it true that we have a choice only between extremes. There is an infinite variety of possibilities. They differ from one another only by degrees; and degrees may matter very much in these questions.

Thus, I repeat, my discussion will not be in terms of the "most likely" but in terms of the "most reasonable"; that is, of the most consistent with widely accepted goals of our social system.

In a discussion of public versus private enterprise we must be careful not to be trapped by the legal concept of property. I am not discussing private versus public *ownership;* for, as many have recognized, legal ownership and economic control are different things. One can conceive, at least academically, of a system where the stock of all corporations is largely or fully government owned but where the firms nevertheless are managed by independent managers free from centralized control or interference; and such a system would be much nearer the traditional picture of a free enterprise system than an order of complete private ownership restricted by rigid controls of prices, production, and invest-

ments. Who holds title to property may be quite irrelevant; what matters is who says what should be produced and how, how it should be sold, how the proceeds should be distributed, etc. The confusion created by concealing the economic structure behind a false legal façade has made some naïve observers mistake the Nazi economy for a capitalistic one.

The goals of the social system must be stated if our discussion is to make sense. We cannot discuss what would be a "reasonable" order of things if we do not first chalk out the frame of reference, consistency with which is demanded or claimed.

However, many of the "ends" or goals may, and actually do, conflict with one another. Thus their mere listing cannot suffice. We should need indifference curves to indicate how much material income we are willing to sacrifice for a little more personal freedom, and how much freedom we are willing to sacrifice for a little more economic security. Fortunately, or unfortunately, these ends cannot be quantified in measurable "units," and so nobody can actually present geometrical curves or algebraic functions depicting his preferences for the final goals of the social order.

Nevertheless, I am listing here a number of "goals" which I believe are accepted in present-day America as the guiding ones: plenty, opportunity, continuity, security, choice, and freedom, and perhaps a few more. *Plenty,* i.e., the total size of the national income should be as large as possible. *Opportunity,* i.e., everybody should have an equal chance in the use of his talents. *Continuity,* i.e., accepted social institutions, including property rights, should not be subject to the uncertainties of sudden (revolutionary) changes. *Security,* i.e., individuals or groups should be insured against disproportionate deteriorations of their economic position and, at least, assured of a minimum standard of living. *Choice,* i.e., the scope of free economic choice as to consumption and occupation should be as wide as possible. *Freedom,* i.e., the individual should be in fullest possession of the political liberties mentioned in the Bill of Rights. One may wish to add to this list further items such as culture and sociability and prestige; and some would like to add income equality; i.e., that the national income should be distributed in equal, or approximately equal, shares.

The conflicts among these goals are practical rather than logical incompatibilities. Thus, the conflicts cannot be "proved" but merely shown to be likely. For instance, there is probably a conflict between income security (of individuals and groups) and maximum total income (of the nation), because the measures for securing "parity incomes" to one or several groups are apt to interfere with the mobility

of resources in the economy or to reduce total productivity in other respects. The conflict between the ideal of income equality and the ideal of plenty has been very frankly stated by no less a "progressive" than Joseph Stalin. In a famous address on the productivity of Russian labor and efficiency of Russian industry, Stalin lashed out against the "leftist levelers of incomes" who had not enough sense to see that equality of incomes may be the ideal for some future generations but is no good for the human beings of our time.[1]

A conflict between income equality and individual freedom has been pointed out by various writers who showed—at least to my satisfaction—that an organization equipped to secure income equality would not likely be permanently democratic.[2] It is tragic that the income equality doctrine is now being spread and preached in this country and in England by certain politicians and churchmen who are obviously innocent of the dangerous implications for productivity and freedom.

My personal bias must have become apparent from these few sentences. Plenty and, particularly, freedom mean much more to me than the other goals. The popular income equality or security goals would certainly lose out in my preference scheme wherever they should be in serious rivalry with the freedom goal.

It is my strong bias in favor of personal liberty which more than anything else guides me in what I consider a reasonable division between the private and the public spheres of influence. For I entertain no illusions concerning the possibility of maintaining political freedom in a system in which the government is responsible for the making and the prosecution of comprehensive economic plans.[3] I simply cannot understand how people who have some idea of the complexities of an economic mechanism can believe that a democratic government can undertake all-out planning (planning of production and distribution) and remain democratic.

It is another matter if "planning" means merely rational designing of general rules and policies. Few would object to a more enlightened planning of the general legal and institutional framework within which private enterprise can be conducted. And few would object to the demand that governmental policies concerning monetary and fiscal measures, social security legislation, and antimonopoly actions be better planned. Experts may disagree concerning the wisdom of certain policies, they may be apprehensive concerning the economic and political consequences of certain measures, but that policies should be planned

[1] Joseph Stalin, *The New Russian Policy* (New York: John Day Company, 1931).
[2] F. A. Hayek, *Freedom and the Economic System* (Chicago, 1939).
[3] Cf. F. A. Hayek, *op. cit.;* Frank D. Graham, *Social Goals and Economic Institutions;* Walter Lippmann, *The Good Society;* Ludwig v. Mises, *Socialism.*

rather than hit-or-miss is not questioned. In this sense we are all "planners."[4]

However, it happens that men whose sincere belief in the democratic form of government is beyond doubt come out with eloquent endorsements of comprehensive economic planning, meaning governmental direction of production, allocation of resources, and manipulation of distribution; in other words, of an economy not steered by the profit motive and reasonably free market prices but by governmental wisdom and well-meaning bureaucratic decision. I cannot help feeling that some business experience plus a good course in economic theory, supplemented by some political common sense, might change the opinions of many of these advocates of the planned economy.

I am afraid that a drastic expansion of the public sector in the economy—an expansion which puts the major responsibility for the performance of all phases of the economic system upon the government—will eventually lead to the destruction of political freedom. For this reason, if I am to draw the demarcation lines between the public and private sectors, only very strong arguments can persuade me to assign certain fields of economic activity to the public sector.

II. *Principles for the Division of Areas and Functions*

Division of labor may mean working separately and may mean working together—depending on the technical situation. The ideas of specialization, separation, and co-operation are among the connotations of the concept of "division of labor"; and it was precisely this which persuaded me to make the uncustomary application of the concept in the formulation of the problem before me. Division of labor has been regarded as the fundamental force in forming society and in holding it together. Division of labor has been credited with the greatest achievements in the advance of welfare and culture. If I propose to apply the expression now to the relationship between government and private enterprise—a relationship which is often described in terms of hostile opposition and strife—I am thinking perhaps less of a scientific appraisal than of the creation of a more wholesome frame of mind.

The division of labor between private and governmental control may in some cases imply a division of areas, of fields of production, and in other cases it may imply merely a division in the exercise of certain

[4] When Professor Alvin H. Hansen says that we have a choice only between "democratic planning" and "totalitarian regimentation" (*The Structure of the American Economy,* Vol. II, National Resources Committee, p. 47) he glorifies policy making by calling it planning and stigmatizes all-out planning by calling it regimentation. This is probably a clever thing to do, because planning has a popular appeal while regimentation is out of favor with most people.

functions within the same area or field of production. *Areal* division of labor exists when certain areas of industrial production are considered either private or public domains, in the sense in which, for example, the postal service is assigned to government and the shoeshining service to private enterprise. *Functional* division of labor exists when certain functions or prerogatives within a field of production are reserved for government and others for private management, in the sense in which, for example, the decisions about employment in the textile industry are made by the private managers but the decisions about minimum wage rates and maximum hours of work per week are partly governmental affairs.

Needless to say, the division of labor between government and business is not voluntary on the part of business. This is not a case where each party in its own, self-apprised interest confines itself to the task to which it considers itself better qualified, leaving the rest to others. From this point of view, therefore, the concept of the division of labor is misapplied to the enforced divisions of areas or functions between government and private enterprise. Since it is the government which assigns itself functions and prerogatives, restricting the scope of private business conduct, the term government intervention in business is more descriptive of this angle of the problem than the euphemistic expression division of labor.

I believe that a classification of types of government intervention in business can serve the purpose of throwing some light on the matter of division of functions. We may distinguish (1) rules and restrictions imposed on all or many lines of industry and (2) those governmental rules or activities which apply to particular industries or trades. Examples of the former are general prohibitions of various sorts, such as those concerning the use of dangerous equipment, child labor, fraudulent advertising, or conspiracy in restraint of trade. Among government rules or activities applying to particular lines of industry we can distinguish, according to their scope and impact, the following types: (a) Government activities which do not involve regulation and direction but merely information and advice for private enterprise. (b) Rules and regulations which change merely what has been called the "environment" of the acting men or firms, leaving the making of specific economic decisions, though restricted in scope, still free in all major aspects. (c) Interventions which provide actual government participation in, or approval of, a number of individual decisions or actions of the men or firms in the trade or industry. (d) Interventions which seemingly restrict merely the scope of free economic decisions without requiring a governmental O.K. for every major step, but which are so disequilibrating and unstabilizing elements in the interrelation-

ships of the markets that a series of further governmental interventions becomes inevitable.[5]

In the first two of these types of government activities or interventions in private business the changes of the "climate" of private enterprise are not drastic. The third type, however, creates the type of "regulated industries," interfering with essential features of private enterprise so seriously that some writers regard these industries as parts of the "collectivist sector" of the economy. Interventions of the fourth type are likely to be merely steps on the way toward more complete regulation and collectivization of the industries concerned.[6]

We can thus see that the division of economic functions between government and private control may in some cases amount to a division of areas: when the functions which the government assigns to itself are the ones paramount in the management of an industry, the industry may well be regarded as virtually a part of the public domain.

On what grounds are economic functions or areas considered as public domain? What reasons can be given for handing over certain functions or fields of economic activity to the government? I am going to list ten such reasons. But that I list them does not mean that I accept them all. (To be sure, I don't.) In some cases the assignment to governmental control may be consistent with all of the widely accepted goals of our social order; but in other cases the assignment, though called for in order to attain some of the goals, may be incompatible with some others. Hence, the list of general reasons should be followed by a series of specific inquiries.

First ground: The government shall provide (or cause others to provide) services of recognized, general usefulness which are not supplied by private enterprise because of the impracticability of dividing them into salable units. (Example: lighthouses.)

Second ground: The government shall provide (or cause others to provide) services the consumption of which is recognized as yielding social benefits (i.e., advantages to others than the consumer) far in excess of the private advantage for which the individual consumer would be willing to pay;[7] and the supply of which by private enterprise

[5] For a keen, critical analysis of interventionism, see Ludwig v. Mises, *Kritik des Interventionismus* (Jena, 1929).

[6] The often-used metaphor of the "rules of the game" is neatly applicable to the classification given above. In "a" the government merely offers information and advice to the players so that they may play a better game. In "b" the government makes or changes the rules of the game but does not itself take part in the game. In "c" not merely the rules of the game but many single moves in the game become a governmental affair. In "d" the government confines itself apparently to changing the rules of the game but makes them so that the game becomes unplayable and necessitates constant revisions of the rules while the game is in progress—which may end up with the government running the whole show.

[7] Cf. P. T. Homan's well-worded formulation of this point: "Even in the case of services like public education, which are technically capable of measurement in individual terms, the

is consequently insufficient. (Example: education.)

Third ground: The government shall take action to prevent waste and secure conservation of natural resources in cases in which the social cost of the use of the resources is far in excess of the private cost to the user. (Example: reforestation.)

Fourth ground: The government shall provide (or cause others to provide) services which, from a humanitarian point of view, are not supplied in sufficient quantity by private enterprise. (Example: hospitalization.)

Fifth ground: The government shall provide information services instrumental in the perfection of markets, and shall through setting of standards, testing of materials and prospectuses, and preclusion of untruthful and misleading statements, prevent the exploitation of the uninformed. (Example: Securities Exchange Commission.)

Sixth ground: The government shall provide services which private enterprise could not provide with equal efficiency or dependability. (Example: postal service [?].)

Seventh ground: The government shall take action to promote innovation and development too costly or risky for unprotected private enterprise, in various ways, such as through direct subsidies or premiums, protection from domestic or foreign competition, supply of public investment funds, public research organizations, public assumption of the risk, or outright government enterprise. (Example: patent system [?].)

Eighth ground: The government shall take action to insure individuals or groups against disproportionate deterioration of their economic situation. (Example: disability insurance.)

Ninth ground: The government shall take action to prevent exploitation of private monopoly positions, either by restricting or regulating private business or by providing effective competition or by nationalizing the monopolistic industries. (Example: public utilities regulation.)

Tenth ground: The government shall provide a sufficient amount of investments, or other expenditures, to secure full employment. (Example: Public Works Administration.)

To this certainly incomplete list somebody may want to add a blanket clause, calling for any and all government actions which may be deemed instrumental in pursuing whatever program of social and economic change may have been decided upon.[8]

element of diffused social benefit is so large as to obscure the calculus of individual advantage." This is contained in Chapter XXIX of L. S. Lyon, V. Abramson and Associates, *Government and Economic Life* (Washington, 1940), p. 1148.

[8] I wish to repeat that inclusion in my list does not necessarily imply acceptance by me. I included what I considered plausible and debatable reasons, but they may be found incompatible with primary goals of the social order.

Often two, three, or more of the listed reasons can be advanced in favor of one project. Public water supply systems, for example, may be justified on at least four grounds. The social benefit derived from having one's fellow citizens better washed and having them drink purified water exceeds the individual advantage by far (No. 2); the humanitarian interest is obvious (No. 4); private enterprise might do the job, but it would be inevitably monopolistic (No. 9); and the erection of water supply systems would be an outlet for investment funds and at times possibly a welcome offset to abundant saving in a rich nation (No. 10).

The real difficulty in all cases is the weighing of the social benefits and social costs. The cost in terms of displaced alternatives varies from time to time for one and the same project. If the humanitarian decides that the poor of the country ought to live in better houses than they themselves are able or willing to pay for, he demands that housing become a concern of the public sector of the economy. Now, in some situations the social cost might be considerable; that is to say, the economic consequences might be such that the proponents, if they knew them, would withdraw their recommendations. In other situations the cost in terms of displaced alternatives might be so slight (or even nil or negative) that opponents, if they knew it, would turn supporters of the recommendations.

Before I select for further inquiry a few of the points raised by this list, I wish to contrast it with the classical list of functions which Adam Smith, alleged father of laissez faire philosophy, assigned to the government: (1) national defense; (2) protection of every member of the society from injustice or oppression by others; and (3) the "duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual . . . to erect and maintain, because the profit could never repay the expense to any individual . . . though it may frequently do much more than repay it to a great society."[9] This is short but elastic. Protection against oppression by others is a principle capable of very extensive interpretation. And although the public works and public institutions which Smith wanted the government to establish were only those satisfying so-called "collective" wants (such as highways, bridges, and canals), the rather general wording would give considerable leeway for government enterprise.

III. *The Socialization of Risk*

The expansion of the agenda of the government is nowhere more drastic than in the function or area of risk bearing. The governments

[9] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (first edition, 1776, Routledge edition, 1903), p. 540.

have gone into the insurance business in a big way and are asked to go in for it in a still bigger way. This development is well characterized by Professor F. K. Mann's descriptive term "the socialization of risk."[10]

On five grounds of the listed ten could governmental risk bearing be demanded: the government may be a more efficient insurer than private insurance companies (No. 6), the government may be charged to assume the risk of pioneering (No. 7), the government may be called upon to assume the responsibility for avoiding distress (No. 8), the government may be asked to assume some of the risks of lending to small business in order to help it compete more effectively with big business (No. 9) and, finally, the government may be saddled with taking entrepreneurial risks in order to get more investments, or with defraying the cost of a social security program in order to increase public spending (No. 10). Appraising the calls for an increasing socialization of risks, one ought to bear in mind (a) that the shifting of risk to the government does not settle the final incidence which may fall, with unforeseen consequences, upon various population groups, depending on the structure of the tax system; (b) that the shifting of the risk away from those who would ordinarily have to bear it may have adverse effects upon productivity; (c) that the technique of risk shifting may be used by political pressure groups for exacting concealed subsidies for particular interests; and (d) that the handling of an ever-growing governmental insurance system may present a dangerous strain for a democratic political machinery.

A distinction, however, should be made between the risks of everyday life (and its termination) and the risks of business enterprise. The shifting of business risks onto government and the establishment or expansion of a general social security system are different enough to require separate evaluation, even if we are mixing them here in our cursory survey.

That the government is more efficient than private enterprise in operating certain types of insurance was claimed very recently in the Beveridge Report of the British Government Planning Committee. The report stated that private companies run the weekly-collection industrial insurance business at unduly high operating cost; nationalization of this branch of insurance, merged with the comprehensive, compulsory old-age insurance scheme, was recommended. Another branch of insurance where government is usually said to be more efficient than private companies is crop insurance in the United States; the reason that only the pooling of this risk on a national scale can provide a sufficiently broad basis for actuarial calculations, is plausible

[10] F. K. Mann, "Structural Changes in the American Economy," *Review of Politics*, April, 1942. I have had also the benefit of reading a manuscript on "The Socialization of Risk," by Professor Mann.

but probably less important than that a bit of concealed subsidy can be procured if the government acts as insurer.

The mercantilistic idea that industrial pioneering should be under government patronage has never disappeared. The governments have rewarded private risk takers by granting patent monopolies for inventions and tariff protection for infant industries. For very expensive development projects the governments themselves have assumed entrepreneurial risks, as for example in the TVA and similar enterprises. In the case of such large development projects, *ex ante* calculations will rarely be free from heated controversy. The proof of the pudding is in the eating.

The substitution of social responsibility for individual self-responsibility constitutes a serious breach with the liberal philosophy of the past. This is particularly so in respect of the risks of business undertakings. Concerning private risks—that is, concerning the security of personal maintenance—the analogous development has started earlier and gone farther, but the advances which the social security systems have made in recent years, both in actual practice and in popular acceptance, are enormous. The Beveridge Report of the British Government Planning Committee and the (still unpublished) Burns-Haber Report of our National Resources Planning Board are evidence—almost a million words of evidence—of the advance of the social security programs of the great democracies.

What are some of the directions which the actual or proposed advances of the principle of social responsibility have taken? Federal (national) participation in noncontributory benefit schemes has been instigated or increased (old age assistance, U.S.A.). Contributory benefit plans have been developed and extended; in the determination of benefits the principle of adequacy was given increasing emphasis as against the principle of equity (U.S.A. and England); unemployment benefits are provided for people even if not "in need"; payments of benefits are to be continued indefinitely over the entire period of unemployment instead of limiting them to so many weeks or months (Beveridge Plan, England). All types of benefits have been stepped up to higher amounts and further increases of the rates are proposed (U.S.A. and England). New fields of social insurance are opened up and old ones are extended; i.e., the proposals comprising compulsory health insurance with comprehensive medical care for every member of the worker's family, marriage payments, maternity grants, and funeral grants (England). The part of the cost of the social security program which is not covered by the contributions of the "insured" and their employers, and must be met by the government, is to reach dimensions which nobody would have fancied a decade ago.

When we speak of the cost of the social security program we should

note that most of the expense is not a social cost but merely an interpersonal transfer of income. That is to say, in principle the social security program involves an organized transfer of income from the rich, healthy, young, and employed to the poor, sick, old, and unemployed. In fact, however, a number of consequences can arise which may affect the size of the national income besides its distribution. Productivity may be increased if misery during periods of unemployment is eliminated and a feeling of security is created; on the other hand, productivity may decline in consequence of the reduction of self-responsibility and a possible reduction of labor mobility. Total production and employment may be increased through the maintenance of demand; or reduced through the cost raising effects of employers' contributions or of taxes covering the government's contributions. The fiscal situation may be improved through the maintenance of the national income; or aggravated through large government contributions, and in this case budget deficits and high tax rates may reduce private investment incentives. The increased propensity to consume may have highly beneficial effects in an economy abounding with capital; or may impede or obstruct the economic development (or rehabilitation) in nations where capital is scarce.

It is estimated that the cost of the proposed social security programs in England and the United States may eventually absorb between 15 and 20 per cent of the national income. The insured may feel that half of the total is paid by the employers and the government; and they may feel, furthermore, that they themselves may once be sick, old, or unemployed and thus be the beneficiaries of their payments. And yet, it is open to question whether most of them, if they were free to decide in full knowledge of the facts, would really be willing to pay for this insurance the premiums which they will have to pay.

It seems to be a fairly obvious statement that the richer a nation is the more generous can be the social security program which it can afford. But I should be at a loss if I were to formulate a less general statement than this, let alone one of quantitative character or even one enumerating the basic determinants. The problems are especially bewildering in view of the unsolved questions concerning "spending versus thrift."

IV. *The Socialization of Monopoly*

Some services which are consumed practically or potentially by all members of the community can be produced or distributed only under such conspicuous economies of large scale that efficient production or distribution of the demanded amounts can take place only by one or a few establishments in each market and may even there still be subject to decreasing costs. Most of these fields, monopolistic of technical necessity, were soon recognized as the proper concern of the govern-

ment. In the United States the lawyers used a magic formula—calling the industries "affected with public interest" or, in short, "public utilities"—which made them subject to government regulation. In many other countries the railroads were nationalized (though largely for reasons of military strategy) and the other public utilities were taken over by provinces or municipalities.

Railroads and other public utilities are, however, not the only monopolistic industries. There are—I am talking of the situation prior to the war emergency—many highly monopolistic fields which are neither under public regulation nor public operation, and an increasing number of writers—some opposed to the private enterprise systems, but others convinced of the superiority of a competitive private enterprise system—agree that something ought to be done about these private monopolies. Demonopolization, regulation, and nationalization seem to be the alternatives.

Some industries cannot be demonopolized by any device. Other industries, where the technical advantages of large size are so substantial that deconcentration would be wasteful, must also be regarded as incurably monopolistic. For industries which could be effectively demonopolized the following are among the measures recommended for the purpose: (1) More vigorous prosecutions under the existing or amended antitrust laws. (2) Changes in corporation law, outlawing interlocking shareholding (holding of corporate stock by other corporations operating in the same industry) and interlocking directorates, and limiting the maximum size of private corporations (relative to the total size of the market). (3) Removal or paring down of barriers against competition, international (tariffs), interstate (invisible tariffs), and interindustry (patents and trade unions).

Each of these groups of measures has its important applications. Where not the small number of firms as such but collusion, trade association practices, or similar policies of firms reduce effective competition, antitrust actions may do the job. Where firms are large chiefly because of united or combined control over several separate establishments, the atomization of the industry may be achieved through changes in corporation laws. Where firms are few because a few indivisible establishments suffice for the national market, foreign competition, revived through tariff reductions, may be a good substitute or catalyst for domestic competition.

But what should be done with those industries where the prescribed remedies will not work—industries, in particular, where the breaking up of a few large firms into many small ones would be too costly in view of modern large-scale technologies? "Hand them over to the government," was the advice of Professor Henry C. Simons, in his *Positive Program of Laissez-Faire*.[11] Simons did not enumerate the

[11] Published by the University of Chicago Press, 1934.

industries which he would expel from the private sector of the economy. He probably did not think that the technological economies of size were so large and so frequent as some writers have made us believe. If the technical advantages of large sizes were real and substantial—which we do not know yet—Simons and the Simonists, under their program, would cede to the collectivists more fields than the most radical socialists had hoped to capture in a couple of generations.

Simons was not particularly concerned about what the government would do with the industries expelled from the private sector, though, discouraged by the experiences of regulation, he seemed to favor public operation over mere regulation. Outright socialists accept Simons' offer with delight.[12] But there is no lack of discouragement concerning government management either, and thus the issue of public operation versus public regulation demands more scrutiny.

Those who warn against government operation of public utilities point to the dangers of corruption of political managers and exploitation by pressure groups. Even under regulation, as soon as the resistance of private management is sufficiently reduced, exploitation by labor and consumers can become serious.[13] When management can fall back upon the general budget of the federal, state, or municipal government and, thus, is not confined to the ordinary receipts from sales, its will to resist against pressure is apt to dwindle. In the words of Professor Clark, "The evidence appears to indicate that private management is more enterprising, keeps costs down more vigilantly, and has more backbone in resisting appeals to laxity or undue liberality whether from laborers, consumers, or other interests."[14] If laxity and liberality should be welcomed in some quarters as a practical way of increasing the propensity to consume and shifting from a high-thrift economy to a high-consumption economy, I must say that I should prefer other methods to this one, which substitutes low-grade politics for economic (or semieconomic) principles of distribution.[15]

[12] Professor Allan R. Sweezy, in his paper in the first of these sessions, showed no enthusiasm at all; he recommended that the "collectivists" should not accept the generous offer of Professor Simons and should leave the responsibility for the monopoly problem to the laissez-fairists.

[13] An example of exploitation by labor is the conditions in the railroad industry (featherbed rules, rates of pay). An example of exploitation by consumers is the 5-cent fare in the New York City subway system.

Professor J. M. Clark (*The Social Control of Business*, p. 423) stated that "when the consumers and laborers become the exploiters the situation is more dangerous to solvency and efficiency. Exploitation by the many is likely to be more devastating than exploitation by the few, whatever may be the relative justice of the two cases."

[14] *Op. cit.*, p. 422.

[15] It would not be fair to ignore in this connection the institution of the public corporation as a hybrid between private and government management. If, in large private corporations, management owns only 2 or 3 per cent of the share capital, and the shares are not closely held by an active control group—what difference should there be between the management of such a private corporation and the management of a public corporation? We should not generalize, because too much depends on the actual setup in each particular case. Differences may lie in the responsibility of the management (the managers of the

If something must be done about incurably monopolistic private enterprise, this seems to be the bill of fare from which to choose: (a) that the government take them over completely, under government management; (b) that public corporations be put in the place of private corporations, with the idea that they should strive for "fair returns" but not for monopoly profits; (c) that public regulation be imposed upon the private corporations; (d) that a few new establishments under government management, or public corporations, be operated to serve as a yardstick for the regulatory policies applied to the private firms; and—in particular cases—(e) that such government establishments or public corporations offer effective competition to the private firms, which could then be left free from regulation. In fields with decreasing long-run costs neither the yardstick idea nor competition would achieve satisfactory solutions. Since the "ideal outputs" could be sold only at a price below average costs, the government must either bear the deficit or, preferably, supervise a system of wise price discrimination.

The antimonopoly doctrine has, to be sure, not a monopoly in present-day political economy. Not every economist approves of the coalition between the advocates of laissez faire capitalism and the socialists—with the former, in their ardor for "Simons-pure" competition, as the more radical wing. Several different lines of thought arrive at the conclusion that the existence of private monopolistic positions should not be taken as a ground for extensive expansion of government activities in business. Let me, for the sake of brevity, single out four approaches to this conclusion.

The Schumpeter approach holds that private monopolies, in the broad sense, may be a blessing in disguise; they may just as easily be beneficial for the common good as they may be harmful; and in actual fact, they are probably more often beneficial than harmful.[16]

The Nourse approach is critical of the restrictive policies of business corporations, but Nourse argues that if executives of large corporations come to understand the long-run advantages to themselves of low-price policies, we shall not have to resort to atomization of big business (to get the good results generally ascribed to competition) nor to more extensive or severe government action.

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public corporation may not be sufficiently independent of central governmental bureaus), in the influence upon personnel selection, investment, and price policies (politics may not be kept out of the affairs of the public corporation) and in matters such as tenure, reward for initiative, selection and promotion of executives. A real difference would probably show up only in cases of continuing deficits when the public corporation would be kept above water by means of public subsidies, so that, again, politics would prevail over economic or semieconomic principles. Mr. Adolf A. Berle, in his paper, called upon the political scientists to devise a new institution which would avoid the dangers of political influence and bureaucratism.

[16] An interesting support to this approach was voiced here in the session on collective bargaining by Mr. Marion Hedges, of the International Brotherhood of Electrical Workers.

The Mises approach holds that the whole monopoly issue is much exaggerated, that most of the few monopolies which do exist owe their existence to misconceived government interventions, and that the elimination of these interventions would take care of the problem.

A synthetic approach is inclined to accept parts of all the other approaches: that not all private monopolies necessarily are harmful; that their policies may become more enlightened and less restrictive; and that many monopolies owe much of their power to government interventions; in addition, it holds that a vigorous demonopolization policy should be pursued, but that even where competition cannot be restored, the dangers of a large expansion of government activities over many fields of the economy are likely to be greater than the evils of private monopolies. These dangers of enlarging the public sector at the expense of the private sector of the economy may be seen in matters of initiative and efficiency but especially in matters of democratic methods and political liberties.

V. *The Socialization of Investment*

Comprehensive social security programs intend to secure maintenance for everybody, employed or unemployed. Programs dealing with monopolistic positions intend to make significant contributions to larger production and higher employment. But it is the public investment programs which are supposed to solve the unemployment problem and to achieve full employment. The government is given the responsibility of securing a level of investment sufficiently high to assure reasonably full employment of labor.[17] "Fiscal policy" is the catchword which is to cover this ground.

The theory behind the program is that advanced by Lord Keynes and most eloquently taught by Professor Alvin Hansen. In briefest form, it says: When thrift surpasses enterprise, reduce thrift and boost public investment.

The alternative—that private investment be encouraged sufficiently —is not regarded as feasible by those who accept the hypothesis of the mature economy. Dissenters contend that it is exactly the bold expansion of government economic activities which drives out the spirit of private enterprise and kills the incentives for private investment. This contention is countered by the assertion that the lack of sufficient private outlets for saved funds is a natural development in a maturing economy. Hence, fiscal policy is given the task of reducing thrift and creating investment.

The tax system is to take care of the one phase of the problem. If the problem were cyclical rather than chronic—I still believe it is—tax

[17] In the words of Lord Keynes: "A somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment." *The General Theory of Employment, Interest, and Money* (London, 1936), p. 378.

adjustments could be a good compensatory device. Taxes on the consumer and the producer—not taxes on saving—are suitable for this function. Reductions of these taxes during the depression may result in increased consumption and production, and may be preferable to large public works programs as a method of unbalancing the budget. But you cannot reduce taxes on the consumer unless there are such taxes. And those who think that the excessive thrift is chronic rather than cyclical are opposed to taxes on consumption (or low income brackets) and call for taxes on saving (or high income brackets).

According to this view, it is by taxing the rich, and the consequent diminution of his ability to save, that the reduction of thrift, or increase in the propensity to save, is to be attained. Insofar as only the taxation side of fiscal policy is involved, our figure of speech—the division of labor between government and private enterprise—does not seem relevant. Income taxes alone do not directly affect the areas of public and private economic activity; only the spending does. Indirectly, however, these tax policies do matter in the determination of the proportions between the private and the public sectors. For, firstly, in potential periods of rapid innovation demand (which may arise even if some of us may not expect them) private investors, deprived of ample funds, will not be able to use all the opportunities which open up; and, secondly, the reduction of investment returns by heavy taxation of incomes is apt to reduce any investment incentives that might prevail otherwise. It remains to be seen whether taxing-and-spending policies can be devised which cut the ability to save without reducing the incentive to invest.

The taxed-away funds must be spent by the government, to be sure, but the idea is that the contribution to national income which is made by a given amount of government investment will depend on the tax structure. That is to say, if taxes do not take moneys from consumers but only from savers, less government expenditures will be needed to maintain fuller employment. Incidentally, it is not correct to say, as is often done, that a continuous flow of government investments necessarily implies continuous budget deficits. If it were possible that all the funds which people would save but would not put to work through private investment, could be taxed away and used for public investments, the trick of employment-securing government expenditures with balanced budgets would work.[18] But the chances to see it work that smoothly are not very good. In all likelihood, spending will mean borrowing.

[18] See on this point Harold M. Somers, "The Impact of Fiscal Policy on National Income," *Canadian Journal of Economic and Political Science,* Vol. 8, 1942, p. 364 ff. Dr. Somers does not expect that taxes could be devised which leave private investment incentives unimpaired, but he holds that the spending of the tax proceeds can repair private investment incentives at least as much as taxation has impaired them.

Whether our business community can be cured from its exaggerated scare of steadily rising government debts will largely depend on the experiences we are going to have with our wartime finance. The sane and sensible remarks which we have heard during these sessions from a leading businessman show that enlightened entrepreneurs are not prejudiced in this respect. This is important, for even if we do not accept the gloom of those who believe that the ample flow of private investment opportunities is forever gone, there seems to be little doubt that there will be periods of underinvestment when compensatory public outlays will be resorted to. The art must be learned how to make these government activities really compensatory but not to displace private investment; they should fill a gap without widening it at the same time.

We need not fear that there will be a scarcity of opportunities for public expenditures. If they need not be self-liquidating and revenue-producing, there will always be enough ideas for government investment—"honorary investment," in the words of Professor Robertson. As a TNEC report said, "the possibilities of expansion are enormous," if all outlays are considered as eligible "which provide basic facilities for preserving our previous heritage of natural resources and for making the country a healthier, safer, and pleasanter place in which to live."[19] I submit that, besides domestic ameliorations, loans to foreign nations for their rehabilitation and development may also be accepted as outlays making this country a safer place in which to live. (And, incidentally, with all other risk socialization, governmental risk bearing for foreign loans will probably be a necessary postwar reconstruction measure.)

Domestic amelioration projects make an imposing list: flood control, soil conservation, reforestation, slum clearance and housing, erection of public buildings, bridges, highways, waterways, parks and playgrounds—all this in addition to the government contributions to the social security program. When I look at this list and at the same time see the huge estimates of the alleged deflationary gap which the government is supposed to fill, I get uneasy at the thought of the appalling test to which a democratic system will be subjected when it is burdened with the task of selecting, planning, and executing these projects. For it is not sufficient to state that the projects should be (a) valuable, (b) capable of intermittent execution (in order to be really compensatory during business fluctuations), and (c) not competitive, but rather complementary, to private enterprise. These and other criteria may narrow but do not solve the problem of choosing among all the possibilities; and, unfortunately, in the absence of profit calculations and market prices, there is no method of selection which

[19] Temporary National Economic Committee, Final Report of the Executive Secretary, p. 281.

can be called objective in any sense of the word. Shall we have enough wisdom?

When I accept, with serious apprehensions and reservations, the gap-filling investments as a necessary assignment to the public sector of our economy, I cannot help expressing two warnings. One is a reminder that situations may be different from time to time and country to country; not all depressions are due to underinvestment, and there may be circumstances under which the "cure" through increased public expenditures would in fact be harmful.

The second warning refers to the possible conflict between public investment policy and wage policy. It is the function of public works to create or maintain employment. If trade unions consider it their function to gain for their members a succession of increases in the level of money wage rates, they will find their task made easier through the policy of public works. But the public works may fail to secure employment if, owing to the policy of the trade unions, each dollar buys less and less labor. It does not help much to step up total outlays by a certain percentage if wage rates rise by the same percentage. If the approach to fuller employment always results in sharp wage rate boosts, full employment cannot be reached. Thus, all calculations concerning the "required" amount of government investment can be badly thrown off by successful union activities. As one of our leading economists has remarked, we may see a constant race between public expenditures and trade union demands, with the problem of employment relieved only if the budget and credit expansions succeed in maintaining a lead in the race.[20] This conflict between wage policy and public investment policy offers a serious dilemma. For, if only an alignment of the two policies can bring results, if the wage policies of trade unions and industry become thus more and more affected with public interest, would not public regulation of wage rates be the next step? And would not, through this additional assignment to the government, the question of political liberties become increasingly acute? Or will trade unions realize the danger and modify their practices?

With these unanswered questions I conclude my search into the problem of the division of labor between private and government economic activity. That I ended up with doubts and questions rather than with definite conclusions is not a matter of dodging the issues. It expresses my belief that nothing is gained by cocksure statements about unsolved problems.

[20] Jacob Viner, "Mr. Keynes on the Causes of Unemployment," *Quarterly Journal of Economics*, Vol. 51, 1936, p. 149. The original statement reads as follows: "In a world organized in accordance with Keynes' specifications there would be a constant race between the printing press and the business agents of the trade unions, with the problem of unemployment largely solved if the printing press could maintain a constant lead and if only volume of employment, irrespective of quality, is considered important."

DISCUSSION

J. Frederic Dewhurst: In Dr. Machlup's excellent paper, he lists the goals or guiding objectives that are determining the shape and form of our society and are affecting and changing the division of labor between government and private enterprise, or in a broader sense the role of the central government in economic and social life. One can accept or reject Dr. Machlup's own personal schedule of priorities among these goals, but one cannot deny that there are basic conflicts among them which make it impossible to organize a society in which they can all be achieved in full measure. Our collective judgment as a people—so long as we can express our judgment democratically in the market place and in the polling booth—will determine the order of preference among these goals, and particularly the relative roles of government and individual initiative.

Dr. Nourse's significant address describes and explains the growth and spread of one of the most striking phenomena of our modern economy, one which is having and will continue to have far-reaching effects on the relation of government to private enterprise. Whether we call it collective bargaining among organized groups, or imperfect competition, or monopolistic competition, or administered prices, this phenomenon is becoming steadily more and more characteristic of larger and larger areas of our economy. Whether we bewail or welcome this trend, there is no use denying it, and, in my judgment at least, there is no use in trying to force a return to anything like Adam Smith's ideal of pure competition among atomistic buyers and sellers in the perfect market.

What Dr. Nourse describes is with us now, and here to stay. The important question is whether an economy in which prices are "administered" by collective bargaining among organized groups can be operated in such a way as to protect the interests of consumers and assure high productivity without inviting greater and greater participation in the price-making process itself by the government. I wish that I were as hopeful as Dr. Nourse that it is going to be possible to avoid this, for if we do not avoid it, some of Dr. Machlup's goals may become merely pleasant memories.

Certainly our own experience with organized economic groups during the past two decades, and that of other countries, has not been too encouraging. Decrying the spread of so-called "monopolistic" practices in industry, we have encouraged monopolistic practices and granted monopolistic rights to agriculture and labor and trade, acting almost as if we believed that the cure for monopoly is more monopoly. And it is undeniable that there has been real justification for these grants on grounds of equity and justice and equalization of bargaining power. But in granting these rights, we have promoted a new kind of monopolistic competition in which politico-economic pressure groups contend for their shares in the national income in the halls of Congress—as well as in the market place. Their chief weapons, forged with the help of government, are output restriction and price maintenance, together with political threats of various kinds—not lower costs and greater efficiency in producing and distributing their products or services. This way

of achieving security and stability is a denial of the abundance and plenty that our economy is capable of. In the long run, this policy of encouraging producer groups to maintain their status and security by charging more rather than less, and producing less rather than more, can lead only to a kind of progressive anemia or hardening of the arteries for our economy as a whole.

It seems to me that both papers presented bring into sharp focus a pervasive and fundamental question: How are we going to resolve the basic conflict between the demands of individuals and organized producer groups for stability, security, and status, on the one hand, with the need for a flexible, productive, and dynamic economy, on the other? The resolution of this conflict would not be so difficult if our demands for security were limited to security as consumers—in a popular phrase to assurance of "freedom from want." But they go much further than this, whether expressed in the demand of the corner druggist for fair trade laws to protect him against chain store price cutting, or in parity prices for agricultural staples, or in "featherbed rules" or seniority rights for organized labor, or the maintenance of a "share in the market" by price agreements among manufacturers. These demands for security—or rather for maintenance of *status quo*—on the part of vested producer interests are enforced in the market place or in the political arena by restrictive measures which in one way or another reduce the total of the national income out of which security for society as a whole must be provided. It is not too much to say that the issue here is between security of status for the separate organized producer interest, whether labor, agriculture, trade, or industry, and security for society as a whole. It seems to me inescapable that we must resolve this conflict if we are to preserve a democratic society and an expansive economic system providing free choice and free opportunity.

More specifically, how can we effectuate an economic program (which has now become generally accepted) that promises on the one hand a standard of living on a decency and comfort level for everyone, whether he works or not, and which requires on the other hand full, efficient, and continuous employment of our manpower and material resources? Obviously these two aims can be made consistent only on the assumption of the individual's duty to work, if work is available, and the entrepreneur's duty to produce if a market for his product exists. But this does not solve the dilemma, because we operate in an exchange economy in which wage rates and prices determine the willingness of workers to work and the willingness and ability of enterpreneurs to produce. Prices, profits, and wages, whether established in the market or by goverment fiat, are not only payments for services rendered but constitute the pressures and incentives that determine how our economic efforts and resources are to be allocated and used. In other words, they are devices for economic planning and in a freely functioning competitive economy they can be expected to ensure full and effective use of our resources. But, if their effectiveness is to be modified by privately administered and governmentally sponsored monopolistic restraints, how can we be sure to achieve the end of full employment and maximum productivity?

In view of the undoubted trend toward the growth of more and more powerful producer groups whose handiest weapons in their struggle for security are output restriction and price maintenance, perhaps the most important question is how government is to exercise its power so as to promote the common welfare rather than group interests, and in such a way as to avoid the evils of compulsion and regimentation and preserve the socially desirable essentials of a free economic system?

INDUSTRIAL ADJUSTMENT AT THE END OF THE WAR

WARTIME EXPANSION IN INDUSTRIAL CAPACITIES[1]

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The industrial expansion brought about by the present war production effort has involved the greatest increases in manufacturing plant and equipment ever undertaken in this country. As a result, the industrial growth that might normally have occupied a decade is being compressed into a period of three years—from the latter part of 1940 to the end of 1943. The cost of war plant expansion during this period will be roughly half the investment made in manufacturing facilities during the twenties and thirties. This war program has had a tremendous impact on the national economic structure and will raise severe problems of readjustment after the war.

Program as a Whole

Through November 30, 1942, the cost of approved projects for war industrial facilities amounted to 16.9 billion dollars. This includes both public and private investments in manufacturing plant and equipment, but excludes investments in transportation, power plants, and other utilities, which, as of the same date, amounted to about 1.5 billions. The construction of these facilities will be largely completed by the fall of 1943, although some projects will not be completed until in 1944. At the end of December of 1942, roughly two-thirds of this program was completed and in place.

Unless the future developments in the war necessitate a shift in our production plans, it appears unlikely that there will be any large additional expansion in this program. Indeed, the volume of new approvals has already dropped off to a comparatively low level and some of the older projects have been canceled. In recent months, approvals for new manufacturing facilities have averaged only about 100 million dollars per month, as compared with a peak of 2.2 billions reached in February, 1942.

Most of the expansion—about 14.4 of the 16.9 billions—has been financed with public funds. Of these publicly owned facilities, however, the great majority are operated by private manufacturers, most of whom have options for acquisition of the plants after the war. Only 8 per cent of the public funds have gone into such projects as arsenals

[1] Much of the work on this paper was done by Mr. Melvin A. Brenner.

and navy yards, which are operated directly by the government.

Private funds account for about 2.5 billion dollars or 15 per cent of the total program, and represent, in the main, small additions to, or conversions of, existing plants. In fact, the average cost per private expansion amounted to only some $270,000 as of November 1, 1942, as compared with an average of $6,700,000 for government expansions. On the whole, the privately financed portion of the expansion should present a relatively simple readjustment problem after the war.

To date, the largest investment of public and private funds has been in the aircraft and related industries, with the explosives and

TABLE I. RELATIVE IMPORTANCE OF PRINCIPAL WAR INDUSTRIES

Product	Order of Rank	
	Cost of Facilities Approved June, 1940–November, 1942	Supply Contracts Awarded June, 1940–November, 1942
Aircraft, engines, and parts	1	1
Explosives and shell loading	2	8
Shipbuilding and repair	3	2
Iron and steel and products	4	7
Chemicals	5	11
Nonferrous metals and products	6	12
Ammunition, shells, bombs, etc.	7	5
Guns	8	4
Machinery and electrical equipment	9	6
Petroleum and coal products	10	10
Combat and motorized vehicles	11	3
Machine tools	12	9

shell loading group running a close second. The exact figures cannot be disclosed, but these two groups alone account for more than one-third of the total expansion in industrial facilities. Other important industries are listed in order of rank in Table I. The emphasis on metal working industries is apparent and needs no elaboration here. It may be noted in passing, however, that this emphasis is even more evident in the distribution of supply contracts, as indicated by the second column of this table. Through November, 1942, the aircraft industry alone received almost a third of all prime contracts awarded by the Army, Navy, and Maritime Commission.

The ratio of public to private financing has, of course, varied from industry to industry, and, to some extent, provides some clue to the relative problems of readjustment for each. In general, the proportion of public financing has been at a maximum for those industries whose expansions have been most disproportionate to probable postwar needs. Table II indicates the percentage of public financing that has gone into each of the important war industry groups.

Geographic Distribution

The great bulk of new war production facilities has been located in the northeastern quarter of the country, the greatest concentration being in the Great Lakes states. The importance of this region has been accentuated by the large-scale conversion of important automotive and other durable consumer goods plants in the same area. Other sizable concentrations of new facilities are in the four metropolitan areas on the West Coast, in the Gulf Southwest, and in the general region of the Tennessee Valley.

TABLE II. PERCENTAGE OF PUBLIC FINANCING IN WAR INDUSTRIAL PROJECTS, JUNE, 1940–NOVEMBER, 1942, BY TYPE OF PRODUCT

Type of Product	% of Public Financing to Total
Explosives and shell loading	99.6
Shipbuilding and repair	96.0
Aircraft, engines and parts	93.0
Ammunition, shells, bombs, etc.	90.8
Guns	90.4
Combat and motorized vehicles	86.3
Chemicals	81.5
Nonferrous metals and products	78.3
Iron and steel and products	71.4
Machinery and electrical equipment	64.3
Machine tools	55.8
Petroleum and coal products	41.2
Miscellaneous manufacturing	59.7
All products	85.1

This general pattern has been fashioned not only by those factors which normally influence plant location but also by several which have been rendered important by the war, notably speed and safety. In some instances, these latter have taken precedence over the more normal factors affecting operating cost. Where this has occurred, the plants in question may prove too inefficient for successful conversion after the war.

For the sake of analysis, the expansion program can be divided into four or five periods. The first, which began in 1939 and extended over into the beginnings of our own defense program, was the expansion financed by the British and French governments. Comparatively small, this expansion was concentrated in northeastern manufacturing areas.

In the fall of 1940 much attention was given to the establishment of an inland defense zone, and plans were made for the location of ordnance facilities within this zone. In the early part of the national defense program, however, the demand for speed outweighed the desirability of safety and effectively oriented the more industrialized operations to existing manufacturing areas where skilled labor and

management were available. During this period, the aircraft industry expanded greatly at such centers as San Diego, Los Angeles, Baltimore, and Long Island—all coastal locations and highly vulnerable to enemy attack. On the other hand, less industrialized plants, such as those producing powder and explosives, were from the start located within the defense zone.

As production goals were repeatedly raised and existing centers showed signs of increasing congestion, it eventually became necessary to shift some war activity to new areas in the interior of the country. Large aircraft assembly plants were located in such trade centers as Kansas City, Dallas, Oklahoma City, Omaha, and others. This departure from established production centers was effected principally in the aircraft industry, which, by reason of its tremendous expansion, simply could not be handled in former centers alone. Some industries, for example, the machine tool industry, have remained almost entirely within former manufacturing areas.

With this country's entry into the war in December, 1941, the war plant program entered a new phase, characterized principally by the large-scale conversion of many durable consumer goods industries. Automobile, refrigerator, typewriter, and similar plants were converted to war production. At the same time, the mounting shortages of materials forced the curtailment of additional plant construction and placed new emphasis on the use of existing idle buildings. Since both convertible industries and idle factories were to be found principally in existing manufacturing centers, mainly in the northeast, this period naturally witnessed the further concentration of war activity in such centers. In turn, as the labor made available by curtailment of civilian production became exhausted, there was once again a trend away from such areas and toward less industrialized cities in the West and the South.

The end product of these several influences and trends—the actual distribution of all facility awards, public and private—is indicated in Table III. For the sake of comparison, this table also indicates the percentage distribution in 1939 of value added by manufacture, and expenditures for manufacturing plant and equipment. It will be noted that the distribution of war industrial facilities has not departed significantly from the prewar distribution of manufacturing activity. There has, however, been some trend away from the eastern seaboard regions, partly the result of the inland defense zone, but more largely the result of the type of manufacturing which normally predominated in these regions. The three regions on the Atlantic Coast are the only ones which have received a share of new facilities smaller than their normal share of manufacturing.

There are significant differences in the distribution throughout the country of the more important war industries. The locational pattern of the aircraft assembly plants has already been indicated above; i.e., concentration in former production centers, along with a number of new units at inland locations. The aircraft engine and parts plants, on the other hand, are located almost entirely in the northeastern manufacturing belt, with the heaviest concentration in the automotive region around Detroit.

TABLE III. DISTRIBUTION OF WAR PLANT EXPANSION, JUNE, 1940–SEPTEMBER, 1942, AND MANUFACTURING ACTIVITY, 1939 (BY REGIONS)

Census Regions	Value Added by Manufacture 1939	Plant Expenditures 1939	War Plant Expansions Approved June, 1940–November, 1942
East North Central	33.5%	32.9%	32.9%
Middle Atlantic	29.8	24.5	18.6
New England	9.8	8.4	4.9
South Atlantic	9.1	11.6	6.6
Pacific	6.5	6.8	7.6
West North Central	5.5	4.5	8.2
East South Central	3.4	4.0	6.6
West South Central	3.3	6.0	11.0
Mountain	1.1	1.3	3.6
United States	100.0	100.0	100.0

Location of smokeless powder, explosives, shell loading, and related facilities has adhered rigidly to the inland defense zone, and practically no important project of this kind has been placed within two hundred miles of our coasts. Shell and bomb loading plants have been distributed somewhat more widely throughout the country than have the powder and explosive units. The latter have been tied to large sources of water supply.

The shipbuilding industry has, of necessity, been limited principally to coastal locations. At first, most of the expansion went into established production centers on the North Atlantic and the Pacific Coasts. As these points were threatened with congestion, new yards were developed, many of which were on the South Atlantic and Gulf Coasts. Where size of vessel has permitted, locations on inland waterways have been used, but these comprise an extremely small portion of the entire industry. Ship parts have been made largely at inland cities in the northeast.

Plants for the production of such basic materials as aluminum, magnesium, iron, steel, and synthetic rubber have, as always, been oriented to the sources of their raw materials, fuel, or power. Thus,

aluminum and magnesium facilities have in the main been located near cheap and abundant power, iron and steel near ore and coal, and synthetic rubber near petroleum refineries or alcohol plants.

Such products as machine tools, combat vehicles, machinery, and guns are being produced almost entirely in the northeast. Involving highly industrialized operations, and having expanded relatively little, these industries have adhered closely to existing manufacturing areas. The combat vehicle plants are, of course, tied in closely with the automotive industry and are therefore concentrated in and around Detroit.

Impact of Program on the Economy

Some indication of the impact of this program on our national economy is provided by comparison with the prewar value of manufacturing plant and equipment, which has been estimated at roughly 50 billion dollars. On this basis, the 16.6 billions approved for war industrial facilities represents an increase of 33 per cent in our investment in plant and equipment. Allowance must, of course, be made for the difference in 1939 and 1942 dollars, and also for the costs of converting existing plants, which are included in the war expansion figure. Even after such allowance, however, there remains an enormous net increase in plant capitalization.

Prewar expenditures for manufacturing plant and equipment averaged roughly 2 billion dollars a year, of which about half went into those industries which have been expanded by the war; i.e., aircraft, explosives, chemicals, rubber, shipbuilding, steel, ammunition, machinery, nonferrous metals, guns, petroleum and coal products, and military combat vehicles. In a normal three-year period, then, we should have expected an investment of about 3 billion dollars in these industries, or less than one-fifth of the 17 billions which have actually been awarded to them in the wartime expansion. In the remaining nonwar industries, on the other hand, there has been practically no plant expansion during the war, whereas normally they too would have received about 3 billions in new investment. When the war ends, therefore, there probably will exist a surplus of capacity in the one group of industries, and at the same time a shortage in the other. This shortage, moreover, may be aggravated by the accelerated depreciation resulting from intensive plant use and scarcity of replacement parts. While to some extent surplus capacities in the war industries will be convertible to the use of nonwar industries, it appears inevitable that a great degree of unbalance will remain. The need for new capital equipment after the war will characterize not only the consumer goods industries but also many of the so-called "war" industries because of the changes involved in the adaptation to new products.

The investment of private funds in war industries has been about the same as the normal prewar expenditures in these industries for a three-year period. In other words, private manufacturers have financed only that portion of the expansion which might have been necessary in any event, with the government bearing the burden of the huge wartime increases. Incidentally, in England the same is true. It is only natural that private manufacturers have not invested to any great degree in specialized war plants which possess questionable peacetime value.

More significant than the wartime increase in value of plant and equipment is the increase in productive capacity brought about in some of the important war industries. The annual capacity for producing aluminum ingot, only about 300 million pounds at the beginning of 1939, will reach a wartime peak in 1943 of more than 2 billion pounds. Magnesium, with a much smaller absolute increase, has experienced a considerably greater percentage change, rising from a prewar capacity of about 6 million pounds to a wartime level of about 520 million pounds. Steel capacity will have increased from 84 million tons in 1939 to 97 million tons in 1943. Some of the basic metal industries, notably copper and lead, have expanded relatively little, their production being limited more in the mining than the refining stage. The synthetic rubber industry has, in effect, been newly created by the war. By 1944 this industry may have reached an annual capacity of over 1,100,000 tons.

For the aircraft industry the total output in 1939 was valued at about 280 million dollars. When peak wartime production is reached, the annual output of this industry may be between 30 and 40 billion dollars.

The shipbuilding industry has also experienced a dramatic growth. The total tonnage of shipping produced in this country in 1939 was only 342,000 tons, while the peak anticipated for 1943 is over 16,000,000 tons.

One of the more important effects of the war program has been the increased concentration of industrial power within industries and throughout the economy. To a great extent this has been unavoidable. The large orders for munitions as well as for new facilities have been allocated to large existing producers. These concerns will have at their disposal after the war an extremely high proportion of the new industrial facilities.

Problems of Conversion

Industrial facilities developed during the war may be disposed of in one of three manners: Either the government will maintain them in stand-by operating condition for a later emergency, or they will be dismantled, or some arrangements will be worked out for their continued use. The conversion of these facilities to peacetime production will present problems of varying difficulties. It is well at this point,

however, to emphasize that the problem of conversion covers far more than the plant and equipment. Of equal, and in most cases greater, importance are the workers, the transportation facilities, power plants, and other plant utilities. Some war plants have required the development of entire new communities, which face the danger of becoming ghost towns unless some substitute activity can be provided. Efforts to convert war production units should have two objectives: (1) to salvage as much of the war production plant as possible for peacetime use and (2) to continue in employment a large proportion of the newly trained labor force. While it may not be desirable that manufacturing employment should continue to be distributed in the present fashion, it is desirable that some of the industrial labor be retained in areas which were depressed or areas which have obtained important industrial production units for the first time during the war.

The problem of conversion involves the following: the demand for the present product, the convertibility of the physical equipment, and the demand for substitute products which can be made in the converted war plants.

Demand for Present Products

The demand for products now being turned out by our war machine in the first few years after the war is certain in almost every case to be considerably less than the present demand. Greatest reductions will, of course, occur for specialized end-products, such as guns, tanks, explosives, poison gases. For many of the basic materials and for general purpose equipment, the demand, under favorable circumstances, may be reduced very little. Indeed it is possible within the first postwar decade that there will be even greater demands for certain materials, such as aluminum, synthetic fibers, and plastics. The same applies in the field of electronics.

The actual demand for specialized war products will depend upon the length of the war and the conditions of the peace. Obviously, if this country is called on to patrol large sections of the world, the needs for war products will be greater than if we reduce our military forces and equipment to prewar levels. I take it there is little likelihood that we will do the latter.

Engineering Convertibility of Plant Equipment

The technical adaptation of war plant facilities to different uses is usually more difficult for equipment than for buildings. For a few types of war production, such as explosives, the building space is divided into separate units to such a degree that operations would usually be uneconomic for peacetime purposes. Most war manufactur-

ing buildings, however, have been well laid out, some with peacetime uses in mind. Many of them are one-story buildings with high ceilings and in general with a well supported framework. Some of the plants approved in the past year or so are of a more temporary nature, but even these probably will last as long as they are maintained. Such has been the experience with some of the so-called "temporary" buildings constructed during the previous World War. Most of our new war plants, however, are of a permanent type and will be highly desirable units for private operation.

The problem of converting manufacturing equipment to peacetime use is, of course, easier with general purpose machinery than with machines designed for specialized operations. With respect to the former, there is really no conversion problem. The equipment can be used wherever there is a need for it, either locally or elsewhere. Difficulties naturally will arise with respect to the disposition of some of these machines because of the varying amount of oversupply, unless of course business operates at very high levels. On the other hand, some of the special-purpose machinery will be worthless for peacetime operations and may have to be junked or perhaps packed in grease and stored for another emergency. The use of this type of tool, even if possible, would often involve considerable costs for readaptation. Changes in technology occurring during the war may make it necessary to throw out much of the capital equipment constructed during the war. In some industries, processes and machines are being simplified, although general introduction of those improvements may not take place for several years after the war.

Demand for Substitute Products

The possibility of using war plants to make peacetime products will be measured by the market for the products selected from among those physically suited to the war plants. Total demand for industrial products will, of course, depend on the condition of business in this country and abroad. The actual decrease in demand for certain basic materials produced in war plants, for example, will depend on how successful government and industry are in maintaining the economy at a high level of national income. If national income can be held between 100-125 billion dollars, much of the war capital equipment can be used. The size of the national income, moreover, will influence the regional opportunities for conversion because with a large national product there will be more local markets on which local plant operation can be based, especially in making consumer goods.

In many industries which depend or may depend partly on foreign markets, the volume of domestic industrial production will naturally be

affected by such factors as the degree of tariff protection for our industries, efforts at self-sufficiency, trade preferences to certain nations, agreements with respect to supply of certain strategic materials, capital assistance to foreign countries, and engineering help in developing new projects abroad.

An important difficulty in inaugurating manufacturing operations in peacetime plants arises in connection with the marketing of the new products. Some manufacturers, for example, those in machine tools, have indicated that they would be loathe to make products for which their equipment is technically suited because of the difficulty of setting up a new distribution system. In this instance, they are all the more reluctant because of the fact that they would often be competing directly with some of their own customers for machine tools.

Regional Differences in Convertibility of War Plants

Among the different sections of the country there are variations in the technical adaptability of war plants to substitute peacetime production. This results from the fact that highly specialized war plants, such as those producing explosives and loading shells, have accounted for a large part of the total in certain areas, notably in certain districts in the South. In other parts of the country, especially in New England, practically all of the plants are of mechanical types which present important possibilities for postwar conversion.

Many war plants throughout the country will be physically appropriate for the manufacture of civilian products but geographically inappropriate. In a more or less competitive economy, most products are made where transportation costs of assembly and delivery are favorable and often in large industrial centers, where there are important external economies. Some war plants have been located in districts where total costs are relatively high for most manufactured products. Their locations have been dictated by considerations of defense or availability during a war boom of scarce production factors, such as labor or electric power. Consequently, some of these plants went into new industrial territory, where the absence of related manufacturing operations and specialized marketing services may handicap conversion to any large-scale manufacturing operation. Yet for certain types of consumer goods and of factory supplies, there may be important new markets arising from the rapid local growth of industry in general. Situations of this type are likely to be found in California and the Texas Gulf Coast after the war.

Conclusion

At the end of the war, this country will face the most difficult industrial readjustment of its history. The problem will cut across

interests of many groups. Relationships among regions, among industries, and among corporations, large and small, will be influenced by the way in which the readjustment is made. Important pressures on government are likely to arise from all quarters concerned. In the absence of a common objective, such as we now have in the war program, it will be difficult to reconcile those diverse interests. In addition, the responsibility of the armed forces to provide adequate defense for future emergencies will be involved. All these factors make it desirable for the federal government to guide the conversion of industry during the transition from war to peace and to furnish financial and other assistance adequate to further its objectives. To some extent, government can furnish industry with information on probable peacetime consumption patterns, although, of course, the initiative in conversion must be taken by private business. Moreover, the achievement of a strategically safer and economically more desirable distribution of industrial activity is entirely a government responsibility. Perhaps it will be desirable to give special assistance to the conversion of certain inland plants, particularly those in distressed or economically handicapped sections of the country. Thorough planning and co-operation on the part of government and private industry will be required in order to bridge the gap between war production and peace production and to maintain industrial output at high levels.

SOME ASPECTS OF WAR PLANT FINANCING

By Hans A. Klagsbrunn
Defense Plant Corporation

In the spring and summer of 1940—before Dunkirk and the fall of France—much thought was being given to the ways and means of making this country what has since often been called "the arsenal of democracy." A workable solution had to be found for the many difficult technical, military, financial, managerial, and manpower problems.

Two goals were immediately apparent. First and foremost was the speedy production of required goods. But no less important—both from the immediate and the long-range point of view—was the necessity of reducing economic dislocation to a minimum.

In the field of financing plant expansions and conversions financial devices were needed that would not be the cause of delay in construction and production. They should be of a sort that would not accelerate the inflationary factors inherent in a wartime economy. And beyond the present, they should increase, not retard, the ability of the country to solve its postwar problems.

It is the purpose of this paper to touch on some of the thought in this field during the last few years and to outline in part how it was translated into action.

The first question to be answered was whether the government or private enterprise would assume the risk of financing plant expansion and conversion. Some believed it should be the latter, but this soon appeared impracticable and unsound on the scale on which it was required.

Many times, manufacturers could not obtain financial aid from private sources on such a scale. But even when obtainable, manufacturers, undertaking this risk, would find themselves heavily overcapitalized or overindebted at the end of hostilities, owing to their investment in facilities. Accordingly, they would lack the resiliency they needed for postwar readjustment. Employment, competitive practices, pricing, the development and supplying of markets, which will all be difficult and important postwar problems, would be adversely influenced by the distorted finances and excess facilities of individual companies and whole industries, and widespread bankruptcies or reorganizations could be expected.

In time of war, too, problems would arise, for delays would be inevitable before private companies could receive financial aid and assume extensive financial risks. For one thing, the existence and continued availability of orders, and the adequacy of methods to finance them, would have to be explored, since without these companies would find

their working capital converted into fixed assets, and financial disaster would soon render them useless to the war effort. Other factors, too, would make for delay. Wartime costs of construction are high and unpredictable. Growing shortages of critical materials require the use of expensive substitute materials that substantially shorten the life of a new plant and make it less feasible as a private investment. Shortages of raw materials, of power, of transportation, of labor, and of housing require the location of plants in areas that frequently may not be economical for postwar operations. These are factors that would have to be reviewed carefully by a private company before risking its own funds for large-scale expansion.

Thus it was soon apparent that the risk of war plant financing would have to belong to the government. The earliest of such financing devices to which consideration was given did not sufficiently meet the needs. One involved the use by a manufacturer of two subsidiary corporations with nominal capital. One subsidiary would receive a government loan for the erection of a plant and through its supplies contracts with the government would receive sufficient funds to retire the loan. The plant site would be leased from the other subsidiary for a period of five to eight years in an endeavor to amortize the plant for tax purposes over the life of the lease. Obviously, all risk would be eliminated for the manufacturer and in addition to tax benefits, he would be able to own a plant for which the government paid.

Such a windfall would seem to be improper simply as a matter of sound administration of public funds. Some have justified it on the ground that payment by the government for privately owned facilities or accelerated tax depreciation would leave the company in question subject to higher income taxes once the war plant was written off the company's books for tax purposes, and that, accordingly, the government would recover in subsequent years much that it had paid. However, regardless of any such recoupment out of profits, such a windfall would have unfortunate repercussions in our national economy. The gift of facilities, in whole or in part, to one manufacturer would give him a competitive advantage throughout his industry in the postwar period. This, in turn, would result perhaps only in unwarranted profits to one concern or perhaps, too, in financial disaster or difficulty for an entire industry.

Such a windfall would have its repercussions during the period of war production as well, since the cost of the plant would be found in the cost of its product, and would have an inflationary effect, resulting in increased demands for higher prices at a time when it is the government's endeavor to keep them within bounds.

About the time that the use of two subsidiaries was abandoned as a

financing device, Congress passed the so-called "five-year tax amortization" statute, which permits a manufacturer to amortize war plants for tax purposes over a five-year period. Although it has served a useful purpose in the case of a large number of relatively small expansions—in many instances extensions of existing facilities—it did not constitute the complete inducement to all-out plant expansion that some of its advocates had hoped it would.

The reason is easy to find. While the period of risk for private concerns was shortened through tax benefits, it was not eliminated. In fact, when the tax amortization statute was first passed, the privileges of the Act were extended to a company only if the agencies of government with which it dealt could all certify that in the price charged the government, no more than normal depreciation was included for the new facilities. It became apparent at an early date that this requirement created an impossible administrative task in view of the vast number of contracts and orders placed by the government, and the requirement was repealed by Congress in an effort to make the statute more workable. After such repeal, a manufacturer still had to assume substantial risk, and where that was beyond his resources, it would give rise to the delays and hazards already discussed. Or he would require such protection in his supplies contract as would assure repayment of his facilities costs—and this was tantamount to a gift of the property by the government. The range of negotiations required to reconcile these complicated problems was not conducive to the speed required by a war effort.

Soon after the five-year tax amortization law was passed, in recognition of its insufficiency to assure all-out production, thought was given to a form of bankable contract, generally known as "the emergency plant facilities contract." In essence, it provided for the construction of war plants with title retained by the manufacturer, but with reimbursement of the cost of this plant by the government in sixty equal monthly installments.

This contract did not, however, wholly meet the need. From the manufacturer's point of view, he was not relieved to his satisfaction of all financial risk, at least during the period of construction. Then, too, the statutory limits on the amount a bank may lend any one borrower left it doubtful whether a company could obtain from its bank adequate working capital loans after receiving large facilities loans. In addition, questions of taxation arose that left him uncertain as to the treatment that would be accorded his receipts and payments under the contract. From the banker's point of view, the risks of the manufacturer were unwelcome credit risks. From the government's point of view, fiscal officers were reluctant to have supplies contracts include interest for money borrowed on the security of such a contract in order to finance

construction, while under the contract itself, the money to be paid by the government over the sixty-month period had to be set aside out of funds already appropriated, and kept idle. In addition, the government was faced with the difficulty of making some adjustment or reduction in its sixty monthly payments in order that the manufacturer might not have a free use of facilities erected under such a government guarantee of costs. Otherwise the manufacturer who had built his own plant and necessarily had to include depreciation in his price would be at a competitive disadvantage in the marketing of his product. From the point of view of both the government and the manufacturer, the contract was inflexible and presented difficulties with respect to changes in the size or scope of the project. It also presented difficulty in the free movement of machinery from place to place, where it was most needed, since loans on the security of such contracts were generally coupled with mortgages and the familiar problems of releases from the lien of a mortgage or of re-recordation of chattel mortgages were encountered.

During this time thought had also been given to government ownership of war facilities, and arrangements for such financing made in the summer of 1940 were receiving close scrutiny. Government ownership had many advantages. Since the government was taking the entire risk, construction could be begun speedily, well ahead of the negotiation of supplies contracts. Plants could be located in whatever strategic location the war economy dictated and could be built of such materials as could best be spared from other uses. Since the government was to have title, the financial position of possible operators was of secondary importance, as the facilities would be free of entanglements that might involve the operators or their property. Since in many instances the working capital problems of such a manufacturer would not be solved until he was ready to begin operations, the device of government ownership eliminated the unhappy dilemma of the manufacturer who could get no financial backing without orders, no orders without facilities, and no facilities without financial backing.

Furthermore, as programs changed and plants required retooling or remodeling during the course of the war production program, needs could be supplied speedily in terms of production requirements by a simple modification of the government plant instead of by a major refinancing operation of a private company. The movement of machinery from point to point, as needed, likewise became an easy matter since the title of the government prevailed and protected the government's investment regardless of location.

Important considerations beyond those of war production were also present. These government owned facilities would not distort a company's assets and liabilities in the postwar period, but could be re-

moved from commercial channels, as has always been the case with government arsenals and shipyards. They could then be released to private ownership or production when and as the development of the postwar economy found itself able to absorb them. This financial device, in brief, enabled the government to assume the entire risk of wartime plant expansion and at the same time avoided the pitfalls for private companies, or the windfalls to them, that were inherent in some of the proposed alternative devices which permitted the manufacturers to own facilities for which the government would pay in varying degrees.

Some did not take kindly to the idea of government ownership, and it was suggested for a while that only in the case of munition plants or of plants to be built in certain strategic locations removed from other industrial developments, should the government have title. Others, however, believed in the advantages of policy and procedure inherent in a financing device involving government ownership. At the same time they believed that the desired end of speedy production of required goods could not be reached unless the resources of industry were marshaled and given the principal responsibility for the vast construction program contemplated.

Out of such thoughts as these grew Defense Plant Corporation in August of 1940. Mindful of the need of marshaling the forces of private industry, it placed the responsibility for the preparation of plans and designs and for construction upon the prospective operators of the plants to be erected, and mindful of the need to protect the government's funds, it provided engineering and auditing supervision over plans, designs, construction, commitments, and disbursements.

As its principal method of financing it uses a device similar to that commonly used in financing railroad rolling stock; that is, ownership of the facilities by the financing agency and the lease of the facilities to the operator. Defense Plant Corporation leases the facilities for the duration of the war to the company responsible for their erection and acquisition. In order to prevent a free use of government facilities, and accordingly to prevent competitive disadvantages to manufacturers using their own facilities, rentals are charged to all except a few direct suppliers of the government whose products are noncompetitive and whose supplies costs are stripped of any charges for facilities.

The lease, as a financing device, is particularly well adapted to meet difficult problems of production that might arise and to avoid interference with operating efficiency. If, for example, a new integrated manufacturing unit were required, it could, of course, readily be provided. But, by the same token, additional machinery or an additional wing to an existing manufacturing plant could be supplied by the government, and for operating purposes become under lease a part of the

company's manufacturing unit. In fact, there is very little of so-called "scrambled facilities" that cannot be provided on this basis. Rental, too, is computed on a basis to avoid interference with operating efficiency. Thus, where segregation of the government facilities from an operating or accounting viewpoint is not feasible or desirable, rent can be charged as a percentage of the over-all sales of a company or can in some other manner be related to general production.

The purchase rights of a manufacturer to a plant being erected for his use during the war at government risk—or, as it was called in the emergency plant facilities contracts, the right of retention—became a controversial point at an early date. There were some who thought that each manufacturer should be given a highly favorable opportunity to buy the facilities operated by him in order to prevent their possible sale to a competitor by the government. It was suggested for some time that the manufacturer should have a right to buy the facilities at their postwar use value to him; that is, at a price which capitalized the additional earnings the plant was expected to bring to its operator after the war. It was soon realized that under such a formula a manufacturer could in many instances buy plants at far below their true value, and perhaps dispose of them to others immediately at considerable profit, while the government, which took the entire risk of the investment and bore the high cost of wartime construction, would be compelled to sell at a fraction of the true value.

Another type of provision to which consideration was given provided that if a manufacturer did not desire to acquire the facilities in question, he could compel the government to remove them. Insofar as they involved buildings and other structures, such a provision had the same effect as the one just discussed, since the government would undoubtedly be glad to sell such structures for a nominal amount in order to avoid removal costs which would often exceed the postwar salvage value of the materials. Still another provision to which consideration was given limited the government's future use of the facilities (if they were neither acquired by the manufacturer nor removed) to war or defense work. Aside from policy objections to such restrictions, legal objections were raised.

Consideration was also given to a provision that would permit the manufacturer to credit his rentals on the purchase price of the facilities. Since those rentals are paid by the government in the price of the product it purchases, either directly or through several intermediate suppliers, the government would be permitting a manufacturer to purchase a plant with funds it supplied to him. The manufacturer, on the other hand, would have no risk or obligation; merely an incentive to increase the rent he collects and pays in order to be permitted to buy

the facilities at less than their value. This type of provision was discarded by its proponents as soon as it was realized that under such circumstances the rent would scarcely be recognized as a legitimate operating expense for tax purposes.

However, the desirability of an option for the manufacturer to purchase was generally recognized. In many instances the war facilities were constructed on sites adjacent to or near existing plants of lessees, often on sites that were held by the lessees for future expansion. This was done because the lessees' managerial and supervisory problems were greatly simplified by co-ordinating operations, and maximum capacity was thus increased and sooner reached. Without an option a lessee would have legitimate fears that the plant might be disposed of to a financially stronger competitor who might purchase at a nuisance rather than a fair value, and seriously impede his peacetime operations. Another legitimate fear was that tools specially built by the lessee and supplied to the government at cost would fall into a competitor's hands without compensation. Accordingly, it was felt that without some purchase provision, the government's negotiations for necessary productive capacity might well be greatly protracted by legitimate fears or the efficiency of the war effort impaired by remote sites or less effective productive units.

An option to purchase would also give a lessee a distinct incentive to keep original costs at a low figure, to provide adequate maintenance of the property, and to see that the plant was well designed and constructed. Moreover, an option with a fair option price might well assure the government a fair return on its investment, since after the war a manufacturer may not be willing to permit an option period to expire despite his belief that if high bidder at a public sale or successful purchaser in negotiations, he might achieve a lower purchase price.

The option provision that was finally devised and is in use in the leases of Defense Plant Corporation may be exercised only for all the facilities covered by the lease—not for a part alone. This protects the government against having certain key buildings or key items of machinery purchased while the balance is left to the government. The option is not effective after ninety days following the termination of the lease, and the option price is computed on the basis of the cost of the facilities less stated depreciation rates for the facilities with a minimum residual value for all items and with the further provision in all cases (except those few in which no rental is payable), that the option price in no event shall be less than the balance of the government's investment then outstanding. This option has found widespread acceptance as meeting the needs of the manufacturer consistent with the protection of the government's interest.

The financing of plant expansions and conversions brought with it the question of financing the production of the machinery and equipment that went into the plants. It was felt at an early date that, regardless of the precise nature of the war plants to be needed, certain standard machinery and equipment would in any event have to be acquired. However, on the scale on which production of machinery and equipment was required, the machine tool builders could not afford to undertake commitments for material and labor without some assurance as to the price and time of sale of their product. In addition, there was always the possibility of a change in machinery requirements, owing either to the course of the war or the development of new weapons, which would leave the machine tool builder without a market for all or part of his product.

It was believed that unnecessary delays could be avoided if such machinery and equipment could be manufactured before the war plant in which it would ultimately be used had even been planned specifically. In this way, too, difficult peak demands could be avoided and a minimum of facilities could be kept operating for a maximum period of time for necessary machinery and equipment.

With these thoughts in mind, Defense Plant Corporation began, in the fall of 1940, to place so-called "equipment pool" orders. Under these orders the government agrees to buy a designated quantity of specified machines at specified prices. The manufacturer covenants, however, to reduce the government's order by all firm orders he subsequently receives, whether from the government or private manufacturers. In essence, therefore, the pool order is a guarantee of a market and a price for specific items of machinery that can be produced in anticipation of a specific market.

Originally, it was required that the government's pool order be reduced as soon as an acceptable firm order was received by the manufacturer, and it was contemplated that the manufacturer would obtain financing through his customary banking channels. As time went on, however, Defense Plant Corporation was advised by governmental as well as private sources that additional protection was required by the machine tool manufacturer in the pool order. In compliance with these requests, the purchase order was modified to provide that the government's order need not be reduced until delivery was made on the firm order, thereby protecting the manufacturer through the pool order during the period between the placement of the firm order and the completion of the machinery. Credit risks after billing, however, were not assumed by the government under the pool order. Likewise, requests for advance payments to supply working capital were made and granted. However, to justify the government in furnishing such protection and

financing, it required that if firm orders were not received and deliveries were made under the pool order, the government would be billed at an agreed discount intended to reduce profits in view of the reduction of risk in the operations of the machine tool manufacturer.

The pool order thus became a practical device for using to a maximum existing manufacturing facilities, for scheduling production of machinery and equipment and assuring its completion in time to be used in plants subsequently planned, and for financing such production.

The vast increase of the country's productive capacity was necessary for the war effort. And financing war plants in the manner here outlined is contributing materially toward the ability of the country to handle its postwar problems.

Holding economic dislocation to a minimum is, however, a negative, though important, goal. Beyond that is the further goal of availing ourselves of the potentialities of the postwar period. That they will be vast and varied is evident when we consider the opportunities for industrial and commercial growth in the rehabilitation of the postwar world, in its development as a market for consumer and capital goods, in the use of new products growing out of the experience of war production, and in the satisfaction of pent-up demands and purchasing power. But the very extent of the opportunities increases our problems, and world-wide unpredictable factors will be found where before the war foreseeable forces influenced our industrial planning.

The precise use to which the war plants will be put in time of peace cannot, of course, be determined, but it is more important at this time to know that a flexible procedure exists for meeting newly perceived problems and changing circumstances. Thus the government facilities could be converted and sold for production. Or, if it appeared more desirable, by a financing device comparable to that now being used by Defense Plant Corporation, the facilities could be made available for production by long- or short-term lease or by private operation for the government on a management fee basis. On the other hand, where appropriate, facilities could be shipped abroad or used domestically to replace worn-out or antiquated plants and machinery. Also, excess or uneconomic facilities could be kept out of commercial channels in stand-by condition or kept in use with a skeleton force for experimentation.

In short, the needs of difficult times can be met then as now, and the important goals of postwar production and postwar employment need not be delayed by problems of financing plant acquisition or conversion.

THE DISPOSITION OF GOVERNMENT FINANCED INDUSTRIAL FACILITIES IN THE POSTWAR PERIOD

By Edwin M. Martin
War Production Board

Previous speakers have described the investment which the government has made in the industrial facilities required to supply our armies and those of our allies, and reviewed the terms of the contracts by which the bulk of the money was spent. I have been asked to discuss what the government may do with this huge industrial plant at the end of the present emergency.

I shall say very little about what the government should do or will do apart from a few broad generalizations. Detailed discussions of this sort partake too much of an escapist, daydreaming character to be worth the time of a group such as this. Rather I shall suggest some of the factors which will affect what should and what will be done, point out some of the problems which are likely to arise, and outline some of the alternative courses of action which may be available.

Basic to the whole discussion is the not too hazardous assumption that at some future date the emergency will be declared to be over and the output required of our productive plant will be greatly altered. It is the action of government in this situation about which I intend to talk.

It also seems fairly easy to assume that whether we are announcing what should be done or deciding what will be done, our conclusions must be governed by the facts and opinions, both political and economic, which exist at the close of the emergency period. It should also be clear that the decisions made will be—as they should be in a democracy—political decisions. Wise government looks not only to the facts and theories of economics but to the political opinions of the nation in reaching its decisions. However, since this meeting is sponsored by the American Economic Association, I shall emphasize economic considerations as much as I can.

The two economic factors which dominate the whole problem of disposal of government owned industrial facilities in the postwar period are quite obviously the volume of product the economy will be called on to turn out and the character of the goods and services which will be needed.

It is hardly necessary to add that in both cases the postwar period will undoubtedly present unusually difficult problems to those who must, as all those involved must, decide how long any particular situa-

tion will prevail. The liquidation of this war on both the economic and political front can hardly help but be a long process involving changes in our world hardly less drastic than the war itself. To a company board of directors deciding whether to purchase a facility from the government and at what price, this evaluation of future prospects will be a very difficult task. I shall avoid it almost entirely, sticking to the problems of the first year or two after the end of the emergency and to those problems which government must decide.

I should like to make one or two further general comments about these two major influences on the problem of disposing of government owned industrial facilities. First I am convinced that if we could be sure of a reasonably full use of our productive resources either through the action of government or industry or labor, or all three, the problem of converting from a war to a peace economy would be relatively simple. That is the great economic and political problem for the postwar period as it was for the prewar decade.

In the immediate postwar period both the volume and character of production seem likely to be affected principally by three factors, the first two political and the third economic: the volume of military supplies needed to meet our international obligations; the extent of the responsibility we assume for reconstructing devastated war areas; and the volume of postponed consumer demand which can be translated into actual purchases.

Basically the government owned industrial facilities to be disposed of are of two kinds: government owned facilities with no strings to private companies and government owned facilities with strings to private companies. In the first category are many of the strictly military type facilities such as smokeless powder and shell loading plants, and certain basic metal producing facilities, especially in the aluminum and magnesium field. Most of the strictly military facilities were built of permanent materials with the object of retaining them as stand-by capacity, immediately available for use in future emergencies. There seems to be little reason to quarrel with this policy. The facilities are in general difficult to convert to other uses; technological obsolescence does not appear to be rapid; and the time and materials saved will be most welcome in case of future wars. Most of them are in rural communities which can reabsorb the workers relatively easily.

The aluminum and magnesium plants present more difficult problems. Two points seem fairly certain: (1) the maximum possible capacity in these two fields should be maintained for use in future emergencies so long as aircraft are built from them; and (2) the most efficient facilities should be kept in production. But insofar as government owned facilities are the most efficient technologically and from the

standpoint of transportation costs, etc., who should own and operate them? The companies now operating these plants were not given an option to purchase at the end of the emergency, as were nearly all other companies in similar situations, because of an objection to perpetuating and extending their control of the market for their product. The government appears to have five choices: (1) sale to present managers on terms similar to those granted other companies under Defense Plant Corporation contracts; (2) sale to present managers with special provisions to insure fair price and marketing policies and maintenance of full productive capacity; (3) sale or management contract with a private management not now in the field for the purpose of stimulating competition; (4) continuation of present government ownership and private management; and (5) government ownership and operation.

I should like to make several comments on these alternatives. Although number 3 appears to be a particularly attractive solution, recent experience in securing new managements for operations of this character suggests that it will be practically impossible to persuade a responsible management organization without previous experience in the field to sign a contract unless its price or power rate provisions amount to a substantial subsidy from public funds. Several observations will be made later on the undesirability of such subsidy.

Government ownership with government or private operation can be justified as a first step in a program for a more forward-looking public stewardship, including closer control of use and distribution, of natural resources which are scarce under present technologies and vital to the nation both in peace and war.

If the facilities are sold to private concerns, at least two related and thorny questions are sure to arise: what will be the price, and what provision will be made for maintenance and use of such less efficient facilities as have to be closed down. Both issues are equally important in connection with facilities whose present operators have been given a purchase option and will be discussed in detail later.

The disposition of the remainder, and the bulk, of government owned industrial facilities presents more difficult problems. These are the facilities which the government owns with a string permitting the present operators to purchase the facilities at some future date, usually stipulated as the end of the emergency, at cost less an agreed-on rate of depreciation. In some cases—how many or what kind it is impossible to guess—the option will be exercised; in others no purchasers will appear, but the government will want to retain the facilities as stand-by for future emergencies or to meet continuing emergency needs; in others the government can sell if it will accept a negotiated distress price, substantially lower than cost less depreciation; and in others

neither the government nor private industry will have any use for the facilities except for scrap. The problems presented to government in disposing of each of these four classes of facilities will be discussed.

The disposition of the first category—those facilities whose operators exercise their option to purchase at the price provided for in the contract—presents few problems. The principal issues likely to arise include:

Military or reconstruction needs may require that conversion of certain facilities to peacetime production be delayed. It is hardly feasible to terminate the emergency for some facilities but not for others; hence it may be necessary to provide somehow for the inclusion in the sale contract of a provision governing use and disposition for a given period, subject to renewal. In cases in which only part of the available capacity is required, such a provision would so delay the entrance of the purchaser into the civilian market that he would probably not be in a position to exercise his option; the government has in fact refused to execute its contractual obligations and the problem is similar to that next discussed.

Future emergency demands may require that some facilities be retained intact as stand-by rather than converted to civilian production. Existing contracts may or may not permit the government to refuse to sell on this ground; where they do not some means must be found for authorizing it. In all cases in which the government must refuse to permit an unqualified exercise of option and conversion to peacetime production for a portion of available facilities the problems of selection and compensation will inevitably arise. Compensation details can hardly be discussed at this time. Selection raises several nice problems. Among the factors to which consideration must be given are: (a) technological efficiency for the military production required, either immediately or during an anticipated emergency; (b) difficulty and cost of conversion to peacetime production; (c) location of the facilities in terms of the impact on the local community of facilities consigned to idleness for the long run.

The real headache will arise from the need for reconciling *a* and *b* since it is most likely that those facilities in an industry best adapted to efficient peacetime production will also be best adapted to military production. The location of the facility is important if a choice is offered between a plant operating in a community forced to use temporary housing facilities and generally overcrowded and a community with no serious overloading of housing and public services. Of course, the plant in the congested area should be made the stand-by.

Although I do not believe many contracts now recognize the fact, public policy may well require as a condition of purchase that facili-

ties already owned by the purchaser not be dismantled or converted to other uses without government permission. It is essential that the magnificent war industry we are building not be wholly abandoned but that substantial facilities be kept in readiness for a repetition of the present emergency. Our international responsibilities, whether we accept them or not, and the ideological and technological ferment abroad in the world today demand it. On the other hand democracy at home and our influence abroad will be bulwarked by efficient production and sale at reasonable prices of goods which satisfy peacetime needs. Wherever the task of converting from war to peace and vice versa is relatively easy—basic materials and general purpose machine tool production lines are two examples—it will be to our advantage to permit the newer, more efficient plants to go into peacetime production, and the older, less efficient plants to be devoted to stand-by and emergency functions. This is one answer to the conflict between *a* and *b* referred to previously. The sales contracts should so provide when both are under the same ownership. The maintenance of these stand-by facilities in working condition is a public responsibility; whether it is exercised through government ownership of them or by contract for maintenance with their present owners is a matter of little importance. Specialized facilities, because of their difficult conversion problems, can probably be kept in the hands of the government without much trouble.

I have spent perhaps an undue amount of time on what may appear to be minor issues. Yet I should like to point out that the competition of substitutes, which wartime restrictions on the use of certain materials and war-inspired technical developments seem sure to stimulate greatly, as well as the perennial competition for the consumer's dollar, will make the selection of firms whose option to purchase modern facilities cannot be exercised or can be exercised only under limitations as to the use of the facilities, discussed under 1 and 2 above, a vital one not only to particular firms but to whole industries. Moreover, the problem of maintaining the less efficient plants as stand-by presents itself in every case in which the option to purchase is exercised, whether at cost less depreciation or at a lower negotiated price. As a footnote it may be observed that consideration might well be given to an arrangement by which the government could finance the maintenance in stand-by condition of carefully selected facilities useful in war production whose owners contemplate demolition, regardless of whether the government has a facility contract with the owners.

Some of those facilities whose option to purchase at cost less depreciation is not exercised, the government will undoubtedly want to select for maintenance as stand-by. The obligation of the government to keep these facilities out of production except in time of emergency or except for production of items for which no privately operated facilities are

available should be made as binding as possible. Competition from them should not be a threat limiting private capital investment if we want to rely on the private enterprise system to carry its share of the load of full employment.

It seems likely that there will remain in the hands of the government a huge volume of facilities for which it has no use and which private industry does not wish to purchase at cost less depreciation. It also seems inevitable that tremendous pressure will be put on the government to unload these facilities at any kind of a price. Failure to do so will be called socialism. The government will be accused, on the one hand, of hanging a Damocles sword over private investment every day it keeps these facilities out of private hands and, on the other, of depriving starving workers of employment and the ill-clothed, ill-fed, and ill-housed one-third of the essentials of life by not releasing these facilities for productive use at a cost which would bring their products within the reach of all. These pressures from the public will augment the pressures of the individual companies, few of whom seem likely to pay cost less depreciation without an attempt to negotiate a lower price.

Certainly in many, if not most, cases there will be justification for carefully calculated adjustments downward. But the dangers of selling for whatever the property will bring are also great. Both the need for certain adjustments and the dangers of throwing the doors wide open deserve careful examination.

Legitimate reductions in price below cost less depreciation may include:

1. Purchase price cannot fairly be based on a construction cost which in most cases included exceptional expenditures to speed up completion, such as overtime payments to labor, bonus payments to contractors, inadequate preparation of plans, etc. Government should deflate cost to remove these factors, project by project. Preparation of corrected cost figures could be started anytime except that just now the manpower required can be better used producing war materials or carrying a gun.

2. It may turn out that whatever contribution government decides to make to the cost of converting to peacetime production can best be handled in the case of companies exercising their option to purchase government owned facilities by reducing the price of the facilities. In effect this may be called an allowance for use obsolescence.

3. Some claims will undoubtedly be made for especially rapid depreciation due to the excessive wear and tear of twenty-four hour use, inadequate time and materials for proper maintenance, etc.

4. Compensation for delay in returning facilities to private operation and hence delay in regaining their peacetime market may also deserve consideration in some instances.

5. A sharp decline in the general level of prices, impossible as it now

seems, is a contingency which might form the basis of requests for a reduced price to make competition more feasible but this can hardly be justified in fairness to competitors who can secure no such subsidy.

6. It has been suggested that plants in Western and Southern communities be subsidized by lower purchase prices if necessary to keep them in operation on the grounds of decentralization of industry, regional self-sufficiency, and better agricultural-industrial balance. The doctrine of regional self-sufficiency and regional decentralization—of a machine tool industry in every state capital or major river valley—I cannot distinguish from that policy of autarchy which has had such a pernicious effect on the international economy during the past decade. Any encouragement for a program which even smacks of that kind of regional independence and self-sufficiency within the boundaries of this country must be challenged and fought every time it appears. The regional agricultural-industrial self-sufficiency argument seems equally fallacious. There is as much, but not more, reason for government subsidy for a machine tool industry in the Rocky Mountain states as for a wheat or cotton growing industry in New England. Better agricultural-industrial balance in the primarily agricultural regions is not an objectionable goal, but its advantages are hard to define concretely and can easily be exaggerated. The absorption of the surplus labor that may be released from closed war plants will in all probability be quicker and the cost of government assistance during the transition period less in agricultural areas than in the major industrial centers. Since most of the war facilities are equipped for durable goods production they do not offer an employment and income cushion in time of cyclical depression but will probably experience even sharper swings in demand than agriculture with nearly identical timing. However, as noted, it is probably less difficult to absorb or take care of surplus industrial labor in agricultural than in industrial communities. This single advantage does not seem to justify favors designed to encourage continued operation of facilities in Western and Southern States as opposed to facilities located in industrial areas.

7. One other locational angle may be mentioned. There may be instances in which the social costs and even the direct governmental costs of a plant shutdown will be presented as offsetting factors, justifying cuts in sale prices. Such an argument can only be recognized when it is clear that similar social or public costs will not be incurred at the location of the alternative facility or facilities whose market will be lost to the subsidized producer granted a reduced facility price.

8. There may be isolated instances in which facilities should be sold at greatly reduced prices in order to permit production of a substitute

material which is essential to our way of life, which cannot be sold at a price covering all costs without serious economic disruption, and which is substituting for an unavailable material or a scarce material it is desired to conserve for future emergencies. Synthetic rubber may be a good case in point. However, any such transaction should include provisions insuring that consumers receive the full benefit of the reduced costs and that technological improvements resulting in decreased costs are passed on. Continued government ownership may be necessary to insure this.

In computing a fair price after allowance for such of these deductions as are applicable to the individual case, consideration may also be given to the fact that the depreciation rates stipulated in the facility financing contracts are in nearly all cases generous, to say the least, partly in anticipation of just such factors as those I have listed. We do not want any double counting of costs.

Turning to some of the factors deserving careful consideration before agreeing to drastic cuts in the prices charged for industrial facilities, the following points deserve mention.

Distress prices will seriously impair the ability of new products requiring new facilities to compete unless there should be a major drop in durable goods prices. Even if the latter should happen, the wisdom of cutting facility prices sharply may be questioned as a matter of public policy. For the new technological developments seem likely to be concentrated on new nonmetallic, particularly wood, plastic, and resin, substitutes for metal which should be encouraged in order to conserve scarce and irreplaceable natural resources.

More serious are the dangers of unloading facilities at distress prices and thus building up through subsidies to selected producers substantial surplus facility capacity. The immediate effect is apt to be considerable disruption of usual competitive relationships, insofar as these exist, including substantial social losses. The ultimate result is apt to be a pressure for cartelization in order to avoid the evils of the sort of cutthroat competition in durable goods industries whose capital costs are high which will be exceedingly difficult to resist, whether open or secret. It is hardly necessary to elaborate on the unpleasant consequences of such a trend toward cartel or monopoly agreements.

Moreover, depending somewhat on the responsibilities we assume for maintaining our military establishment and rebuilding productive facilities abroad, a flooding of the market with buildings and tools and equipment may cause such an atrophy of heavy goods industries, even if we maintain reasonably full employment at home, as to endanger our capacity to meet the production demands of future emergencies. Stand-

by facilities have only limited usefulness without organizations to operate them which are used to working together and leading the way in improving products and methods of production.

Should the government succeed in withstanding the clamor, which will grow as time passes, to get rid of its facilities regardless of price and ease the burden of government debt and taxation and as a result find itself with a substantial volume of facilities on hand with no possible value in future emergencies, it has several alternative methods of disposal. Most obvious is the scrap pile. Less obvious but deserving careful consideration may be the sale of the facilities abroad for reconstruction of war destroyed industries or as a stimulus to the economic development of the more backward countries and an addition to our reservoir of international good will. It is hardly necessary to observe the opposition such a proposal is sure to meet regardless of the prices set on the facilities, but it may be worth fighting for in a number of cases. Facilities not handled in one of the above ways should probably be kept for sale at full cost less depreciation price when a market comes into existence.

I should like to close with three general observations. First, there seems to be no reason why when the operator has refused to exercise his option at cost less depreciation less any other justified deductions, other companies should not be given an opportunity to acquire the property before continuing to negotiate with the operator for purchase at a reduced price. Secondly, the advantages of having all the difficult questions involved in liquidating the government's investment in industrial facilities handled by a single agency seem overwhelming. The desirability of having all potential purchasers treated alike is great. Administrative simplicity also suggests the need for centralizing this responsibility. However, power should be given to some such body as the Army-Navy Munitions Board to say the final word on the facilities which should be reserved for use in future emergencies. Lastly, it seems likely that the government can make a major contribution to the success of the conversion of our industrial plant from war to peace and, *ipso facto,* to the problem of disposing of the government owned facilities, by providing factual service to industry which will aid it in estimating unfilled market demand for its products in the rapidly changing postwar world. It will not be an easy job nor can we start now to do more than organize the framework within which government and industry and labor and consumers can work to convert postwar conditions into capacity and demand figures in an international market which will enable industry to plan its facility needs with the least possible waste.

DISCUSSION

ADOLPH G. ABRAMSON: It is not possible to comment in a few minutes on all the facts and alternatives relative to the several aspects of postwar plant conversion and disposition analyzed in these three papers. I agree with the general conclusion that the nature of the problem is such as to make necessary and desirable an important role for government. It seems clear, however, that this conclusion does not provide a basis for answering the various questions that have been raised. These answers would appear to depend upon decisions with respect to at least three basic issues.

First, is the desirability of maintaining productive capacity for raw materials and weapons of the present war versus the desirability of relying largely on an alert and flexible industrial system. The latter alternative does not imply the adoption of a policy of disarmament. Second, is whether or not productive capacity should be maintained for substitute materials not "useful" in peacetime but, as far as we know now, scarcities of which may develop in wartime. Third, is the nature and objectives of the postwar American economic organization, and the respective roles of private and public units.

Were these issues decided it would be clearer just what is meant by an "economically desirable distribution of industry" as a guide to the solution of some postwar plant disposition problems. It would be possible, also, to avoid the contradiction in policy involved in suggesting both that government should own and operate plants to stimulate competition and that government stand-by facilities should not be a threat limiting private capital investment.

It seems generally agreed that one of the major objectives, toward which the solution of the problem of disposing of wartime plant expansion is to contribute, is the maintenance of employment. Considerable emphasis has been placed, by some analysts, on creating a "favorable" atmoshpere for private producers so they will be likely to take those actions necessary to the fullest utilization of postwar productive capacity. The maximum employment objective seems, in some instances, to have been presented in such way as to make the atmosphere "unfavorable." It has been frequently suggested, for example, that the first few years of the postwar period will be sort of a "last chance" for private producers; they must either create "full" employment or be "cast aside." The "all or nothing" character of this method of attempting to achieve maximum employment seems not only unreasonable but likely to induce a policy of restriction because of the penalties involved in failure.

Some of the problems foreseen as likely to characterize the postwar conversion problem seem to arise out of an implied assumption that business generally will be depressed. The possibility, and perhaps likelihood, that "boom" conditions will prevail in the immediate postwar period may change the character of these problems or make them less stubborn.

TERMINATION OF CONTRACTS AND DISPOSAL OF SURPLUSES AFTER THE FIRST WORLD WAR[1]

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General Background

Military and business conditions both before and after the 1918 Armistice exerted an important influence on the termination of contracts and on the disposal of surpluses. Before the war ended, the military procurement program contemplated greatly increased American participation in hostilities abroad. Through the fall of 1918, plans called for a decisive campaign the following spring, with a five-million-man army and a greatly expanded A.E.F. Consequently, contracts were being written to procure supplies for an army considerably greater than the approximately 3,500,000 soldiers actually mobilized. As late as October 29, 1918, the War Industries Board urgently appealed for accelerated production. Then, suddenly, within two weeks, the Armistice came.

"The Armistice caught America industrially unprepared for peace," business leaders reported.[2] Both Congress and the President had been urged to prepare for the transition, but waging the war and negotiating the peace diverted their attention from domestic problems. As a result, demobilization of men and of industry proceeded without any integrated master plan. Procedures to meet the new situation had to be improvised.

For both contracts and surpluses, the six-month period of post-Armistice industrial hesitation was important. Four factors predominated: first, impending cancellation of contracts totaling billions of dollars; second, huge surpluses threatening the market; third, prospects of unemployment as 9 million war workers and 4 million service men sought new work; fourth, and probably most important, anticipation of downward adjustment of the prevailing high prices. With a falling market in prospect, businessmen hesitated to make forward commitments; their delay in placing orders further re-enforced the fear of price cuts. The result was a noticeable decline of industrial activity.

Declines were most marked in heavy industry and mining, less apparent at the wholesale level, and little noticed at the retail level. This period of industrial hesitation lasted some six months; it coincided with,

[1] The material presented in this paper summarizes the results of extensive work by the staff of the Division of Historical Studies of Wartime Problems, of the Bureau of Labor Statistics.

[2] *Annals of the American Academy of Political and Social Science,* Vol. 81. See articles by V. Everit Macy, p. 80, and John B. Densmore, p. 36.

and considerably complicated, the demobilization process.[3] Businessmen, fearing general depression, urged that the government protect industry as far as possible in the termination and disposition program.

Industrial stagnation gradually disappeared. By late spring of 1919, a new and much more optimistic attitude became apparent. The effects of sustained purchasing power worked their way back from retail outlets through wholesale houses to manufacturers. The well-known period of "HCL"—High Cost of Living—ensued. Some prices, especially cost-of-living items, soared to all-time highs. Protests by consumers replaced fears of depression. The use of government surpluses to force reduction in market prices was urged. Within a few months, demands that surpluses be released drowned out the earlier pleas that industry be protected. Throughout the postwar period, the government needed a flexible program which could be adjusted to the changing needs and demands of the public.

Termination of Contracts

Most war contracts had been issued by the five chief buying agencies: the Navy Department, the Emergency Fleet Corporation, the Housing Corporation, the Grain Corporation, and, most important of all, the War Department. As a matter of policy, the Navy preferred not to cancel contracts; its relatively larger peacetime operations permitted it greater freedom of action than the War Department was allowed. As late as 1920, the Navy had reported cancellations totaling only about $150,000,000.[4] Subsequent international naval limitation agreements have no place in the present study.[5] The Emergency Fleet Corporation found itself obliged to cancel, early in 1919, contracts for 2 million tons of steel ships; it later canceled contracts for an additional 2 million tons.[6] Fortunately for the shipbuilders, however, private firms assumed contracts for a considerable tonnage of steel merchant vessels. Builders of wooden ships were less fortunate; unfinished wooden hulls were sold by bid in whatever condition cancellation caught them, and many lay in harbors for years, only partly finished.[7] The Housing Corporation completed most of its permanent projects, sold its interest in temporary developments, and auctioned off assorted equipment.[8] The Grain Corporation, because of the necessity for feeding Europe, was able to carry out its principal contracts.

[3] "Production, Prices and Employment, 1918-1921," Bureau of Labor Statistics, series on Historical Studies of Wartime Problems.

[4] National Archives, Navy Department Archives: Files of Supplies and Accounts Division, 1918-1920.

[5] *Ibid.*, File 312.6. Memorandum to bureau chiefs, November 16, 1918; also Secretary of Navy File 29440:115-125.

[6] *United States Bulletin*, May 5, 1919, p. 6.

[7] *Ibid.*, May 8, pp. 2-3; see also *Iron Age*, July 10, 1919, p. 10.

[8] *Report of the United States Housing Corporation* (Washington, 1920), Vol. I, pp. 51-53.

The War Department remains to be considered. It had contracted for enormous quantities of material. Moreover, the variety of supplies involved made its termination program by far the most difficult and complex in the government. As a result, that program offers the most helpful material for current consideration. This paper, in view of narrow time limits, is confined to the War Department situation.

At Armistice time, this Department had outstanding some 30,000 contracts with a face value of 7½ billion dollars. (Various authorities differ sharply on these as well as on other figures used herein; as far as possible only those figures have been used which are consistent with each other, and which come from good sources.) Of these contracts, some three thousand, amounting to about 1½ billions, were either virtually complete or else covered imperatively needed facilities like warehouses, port works, and hospitals. The remaining 27,000 unfinished contracts involved a face value of approximately 6 billion dollars. On these unfinished contracts, goods worth 2 billion dollars were delivered or were ready for delivery. This left, finally, a net amount of almost 4 billions to be terminated.[9]

The final termination of war contracts affected four important groups: labor, contractors, the government, and the general public. Large sections of the public demanded speedy cancellation, in order to reduce government expenditures.[10] It was important to avoid irreparable waste of manpower and materials and to resume production of badly needed civilian goods. Moreover, if production of war goods continued, the accumulating flow of goods would overwhelm the transportation system and warehouses. Indeed, one student estimated that one or two days' production could produce congestion.[11]

The chief danger for labor lay in the wide fear of unemployment as war workers and service men were discharged. Some projects in remote regions involved the problem of returning workers to industrial or agricultural territory. Lumbermen from Oregon and Washington, for example, testified that they had 120,000 employees in the woods—men hired at high wages on representation from the government that the program would certainly be continued through 1919. These employers warned of growing labor unrest unless such men could be satisfied.[12] Finally, with wages at unprecedented levels, but with widespread unemployment in prospect, certain powerful employers launched a drive

[9] Benedict Crowell and R. F. Wilson, *Demobilization* (New Haven: Yale University Press, 1921), pp. 128-129.

[10] *Congressional Record,* November 11, 1918, *et seq.*

[11] J. Franklin Crowell, *Government War Contracts* (New York: Oxford University Press, 1920), p. 292.

[12] *Minutes of the Price-Fixing Committee,* reprinted for the Special Committee on Investigating the Munitions Industry. 74th Congress, 2nd Session, Print No. 5 (Washington, 1936), pp. 1717-1723.

to reduce wages generally. The outlook for labor was far from bright, and the cancellation of contracts was an important contributing factor.[13]

Difficulties for holders of contracts were equally numerous. The entire market vanished for the relatively few manufacturers who had converted or built facilities for the production of munitions. Those more numerous firms which, like auto manufacturers, were partially converted, were faced with the necessity of readjusting to civilian production.

Soon after the Armistice the Comptroller of the Treasury ruled out any payment whatever on large numbers of so-called "informal" contracts—contracts imperfect in that they did not comply, in minute detail, with the strict letter of the law.[14] At least 8,600 informal contracts were known to have been made.[15] No settlement could be made for any of these agreements until Congress provided validating legislation. The Dent Act, passed for this purpose, was approved on March 2, 1919. Under its terms, however, some 15 per cent of the claims based on informal contracts never received relief.[16] Whether contracts were formal or informal, however, payments to contractors were delayed.

Two other important sources of difficulty for contractors lie outside the scope of this paper: one, the handling of excess plant capacity developed to meet the war emergency; the other, the handling of subcontracts. Ordnance contracts alone were estimated to involve some 115,000 subcontracts, but the War Department disclaimed any direct responsibility to subcontractors.[17] It did, however, reimburse prime contractors for their obligations to subcontractors.

In its role of representative of all the people, the government was involved in each of the foregoing difficulties, in addition to its own distinctive problems. One such problem involved the balancing of short-term economy against long-term economy. For example, Benedict Crowell, Director of Munitions, testified that where rifles were 80 per cent complete, the government preferred to have the contract completed and receive usable rifles rather than pay 80 per cent and receive only useless parts.[18] As a rule, contracts were not completed unless they were within 25 per cent of completion.[19] The wisdom of completing supplies

[13] "Validating Informal Contracts," Senate Committee on Military Affairs, 65th Congress, 3rd Session, p. 20.

[14] *Report of the House Select Committee on Expenditures in War Department* (Graham Committee), 66th Congress, Senate Library Vol. 278.

[15] *United States Bulletin, op. cit.*

[16] *Ibid.*

[17] National Archives, War Department Archives: P. S. & T. File 164; Folder—Liberty Cotton Mills.

[18] J. F. Crowell, *op. cit.*, p. 290.

[19] National Archives, War Department Archives: P. S. & T. File 164; Folder—Proceedings of the Board for the cancellation of contracts.

like rifles depended in part on the size of the permanent Army. The bigger the Army was to be, the more justifiable the continuance of production and the retention of supplies. Unfortunately, however, its statutory size remained unknown[20] until June 4, 1920—too late to help in making decisions affecting contracts and surpluses. Thus these decisions, dependent as they were upon guesswork, could not be made as intelligently as might otherwise have been possible.

Another problem for the government lay in the development of a satisfactory termination procedure. If the government canceled outright, it surrendered all power to negotiate with the contractor. Hence, the best course lay in asking contractors to suspend operations pending the negotiation of a new substitute agreement. The government had no right, however, to order suspension; that was optional with the contractor.

On November 12, the government kept telegraph wires busy with suspension requests. More than 28,000 contracts were involved.[21] Almost without exception, contractors patriotically suspended operations. Having initiated the suspensions in Washington, the War Department handled subsequent negotiations through its district boards, except that Washington officials determined which kinds of contracts were to be completed and which to be canceled. In all, 3,000 contracts were completed.

Contractors submitted their claims to the appropriate district board; after investigation the latter recommended a tentative award. Copies of this award were sent to the company and to the appropriate Bureau Claims Board in Washington. The latter could return the award for further negotiation or forward it to the War Department Claims Board for final approval. Not until the award had been approved by both Claims Boards in Washington and returned to the district board, could the new agreement be substituted for the original contract. Finally, the contractor could be paid. The two levels of Claims Boards at Washington were intended both to review the settlements and to serve as courts of appeal. Of course, dissatisfied contractors could go outside this system to the United States Court of Claims, but to do so involved such delay that all but a few preferred to accept the offices of the War Department itself.

In negotiating agreements, the Department developed a fairly elaborate set of working rules. "The fundamental principle was reimbursement" of the contractor for all expenses actually incurred for each contract.[22] Application of the principle was often difficult, however, par-

[20] 41-Stat.-759.
[21] *Report of Chief of Ordnance*, 1919, pp. 20, 30.
[22] *United States Bulletin*, June 2, 1919, pp. 10-11.

ticularly in such matters as depreciation allowances, overhead charges, and, in one case, a dismissal wage. Settlement was considerably facilitated if the cost of constructing facilities had been mentioned in the contract and if the firm's books intelligibly segregated costs for each contract. Whenever possible, the government turned over facilities and goods on hand to the manufacturer at their market value.[23] The contractor was allowed a reasonable profit on the completed portion of his contract, but none on the uncompleted portion.[24]

With the intention of assisting contractors who lacked working capital for the transition period, the wartime practice of advancing funds to contractors was modified. The post-Armistice policy looked toward advancing to the contractor 75 per cent of the undisputed portion of his claim if he signed a supplemental contract agreeing to a negotiated settlement. The difficulties over informal contracts made impossible, of course, the application of this intended policy in thousands of cases. In all, the government advanced about 143 million dollars while claims were being settled.[25]

Even after "final" settlement had been made, however, the government still had the right to reopen cases at any time if overpayment were discovered. Between 1922 and 1926 the War Transactions Section made an extensive review of cases wherein overpayment might have been made. Even at that time, lack of usable government records proved a handicap. Nine hundred fifty-five cases were reopened, and about 11 million dollars recovered for the government.[26]

Speedy termination of production unquestionably was achieved. The Department canceled contracts covering 2 billions in the first month, and 3.8 billions altogether.[27] Its awards averaged 13.3 per cent of the face value. By mid-1920, the Department had settled 26,000 contracts; about a thousand dragged on for subsequent settlement.[28]

The government commonly agreed to accept one month's production by any given contractor, at the November rate of production, with a further provision that delivery might be spaced over several months. Thus the contractor could continue at full speed for a short time or he could taper production over a longer period. One very large contractor, whose contract committed the government to accept three months' production instead of just one month's, actually ceased production immediately after the Armistice. This saved the government 10 million

[23] "Termination Clauses in Ordnance Contracts," Bureau of Labor Statistics, Historical Studies of Wartime Problems, No. 57.

[24] *United States Bulletin*, June 2, 1919, pp. 10-11.

[25] B. Crowell, *op. cit.*, p. 138.

[26] *Report of the Attorney-General*, 1926, p. 98.

[27] National Archives, War Department Archives: 050 Quarter-Master. General Staff Statistical Branch, Weekly Report, No. 89, p. 1.

[28] B. Crowell, *op. cit.*, pp. 143-144.

dollars but abruptly eliminated 45,000 jobs.[29] This particular instance is unusual, but it does furnish a sharply focused illustration of the contrasting interests of the workers and of the federal Treasury.

Representatives of labor protested the effect upon workers of the rapid termination of contracts, but had no power in the matter. The pre-Armistice shortage of labor changed to a surplus, except for unskilled labor. Cleveland reported a surplus of 75,000 workmen. Other cities, too, had tens of thousands of displaced war workers.[30]

In receiving their final settlements, contractors suffered delays ranging from short periods up to years. Indeed, the day I began this paper, the *Washington Post* reported the final disposition of a claim still pending from World War I. Not only did manufacturers who took government contracts discover that their profit margins shrank compared with those of their competitors who avoided government work[31] but these businesses which accepted government contracts were further penalized by delays in the payment of their claims.

On a recent trip to the Midwest, one representative of the Bureau of Labor Statistics encountered an interesting reverberation of contractors' difficulties after the last war. A prominent bank official reported that before Pearl Harbor, his clients were unwilling to accept defense orders from the government. They took the attitude that on subcontracts with other firms they could sue, but prime contracts with the government did not interest them. Thus hardships suffered by contractors after World War I handicapped, to some extent, preparations for World War II.

Disposition of Surpluses

As has already been mentioned, both the value of outstanding contracts and the quantities of surplus materials were affected by the expectation of a major campaign in 1919, with a five-million-man army. Surpluses were further increased by the poorly balanced buying which marred some portions of the procurement program; the purchase of 900,000 saddles, when the Army had but 85,000 Cavalry horses, will serve as an illustration.[32] Another factor was the speed with which weapons had been improved; this caused the obsolescence of some models, even before their manufacture was completed. Each of the foregoing factors increased postwar surpluses.

As will be explained, exact calculation of the value of such surpluses was well-nigh impossible. Three and a third billion dollars worth is

[29] "Termination Clauses . . . ," *op. cit.*
[30] *United States Employment Service Weekly Reports*, January-April, 1919.
[31] "The Automobile Industry, 1918-1921," Bureau of Labor Statistics, Historical Studies of Wartime Problems, No. 52, p. 67.
[32] *Graham Committee Report, op. cit.*

frequently mentioned; of that amount, 2 billion dollars worth was in the United States. The total included 250,000 different items.[33] Among more noteworthy individual items were 100 million pounds of copper; 860 thousand tons of nitrates; two years' supply of wool; and a rumored quarter of a billion dollars worth of machine tools. Dumping any one of those commodities could of course break the market.

The first problem was that of determining the actual size of inventories. Subsistence supplies were constantly being used; new deliveries kept changing the stocks; and the geographical distribution was staggering. A staff of 10,000 men required ten days merely to count the goods; completing the inventory took four months.[34] Not until it had been finished could total surpluses be calculated; and of course by then the figures were out of date.

Aside from sheer size, complexity, and geographical scatter, one final physical aspect of the problem lay in the danger of deterioration. In some cases warehouses were unavailable; in others, avoidable deterioration caused scandals. Most frequently mentioned as instances of mishandling were 11,000 vehicles left exposed to the weather for many months at Camp Holabird; 52,000 bales of cotton linters similarly wasted at Nitro, West Virginia; and the deliberate burning, in France, of serviceable supplies, both old and new. One historian refers to "paralysis of the sense of custodial duty" on the part of responsible officials.[35]

The amount of surplus to be declared presented difficulties. Obviously no exact surplus could be determined until the inventory had been completed. Even the inventory, elaborate as it was, did not complete the matter, for in the settlement of contracts, the government took title to substantial amounts of materials previously held by the contractors. Apart, however, from the amount of goods on hand, the size of the permanent army still remained a question. There was also the question of the quantities which could be absorbed within the War Department itself or by other government agencies. All of the preceding factors influenced the size of the surplus, but even after each factor had been considered, much still depended on the judgment of the determining official. For example, how many years' supply of canned goods should be retained? Obviously that kind of decision involved a large element of arbitrary judgment.

The adaptability of the product to peacetime uses had an important bearing on its value. Trucks, for example, had uses in peacetime as well as in war; the same was true of food. Other surpluses could be converted to peacetime uses. For example: artillery harness could be

[33] B. Crowell, *op. cit.*, pp. 270, 272.
[34] *Graham Committee Report, op. cit.*, p. 23.
[35] J. Crowell, *op. cit.*, pp. 302-304.

converted into work harness; research revealed that cupro-nickel, for which no market existed, could be converted into German silver, for which there was a good market; peacetime uses were found for cartridge cloth, an otherwise useless product.[36] But many supplies, however expensive originally, were finally sold for scrap—at twelve cents apiece in the case of machine guns![37]

A further problem arose in connection with the fair appraisal of some of the properties. The Nitro and Old Hickory developments afford good examples. Powder plants and collateral developments costing roughly 70 millions in one case, and 90 in the other, had to be sold in a market which no longer needed powder. What were they worth? Obviously, what a prospective purchaser was willing to pay. One sold finally for about 8½ millions; the other for 3½.[38] The difference, of 5 million dollars, illustrates the extent to which arbitrary decisions and the personal equation could affect the disposition of surpluses.

The whole problem of disposing of government property presented possibilities for unscrupulous dealing; opportunity for private profit could be found at all levels from janitors to high officials. A Congressional investigating committee, for what it considered adequate cause, recommended that no officer be allowed to purchase surpluses within two years after resigning his commission.[39]

A less obvious problem came from the conflicting desires of many powerful interest groups. No matter what action the government took, some groups would be adversely affected: If surpluses were held off the market, consumers would protest; if surpluses were dumped, producers would protest; if they were fed slowly onto the market, distributors would protest. Moreover, the generous treatment which would best please some industry representatives would least satisfy taxpayers and the consuming public.

Policies governing disposition of surpluses shifted from time to time. Interest groups varying in number, in persistence, and in influence brought pressure to bear. Changes occurred both in the general business situation and in particular industries. As conditions changed, the policies came up for reconsideration. Finally, the extent of available knowledge—whether of the size of the inventory, the possibility of dumping abroad, or the likelihood of another war—constituted another limiting factor on policy determination. Accordingly, policies, and especially emphases, changed from time to time.

[36] B. Crowell, *op. cit.*, pp. 277-280.

[37] *Hearings* before the Special Committee to Investigate the Munitions Industry, U. S. Senate, 74th Congress, 2nd Session, pt. 38, "Disposal of Surplus and Obsolete Government War Materials," p. 13,079.

[38] *Graham Committee Report, op. cit.*, pp. 603, 606.

[39] *Ibid.*, p. 579.

In general, the War Department sought to avoid disturbance to industry, while obtaining maximum returns for the Treasury. Unfortunately, the two goals were incompatible.

In disposing of surpluses, the following order was observed: first, if feasible, the War Department transferred goods elsewhere in the Department or the government; next, it contemplated sales abroad, though in general these did not materialize; third, the Department arranged to return goods to trade channels; fourth, if the preceding methods did not suffice, efforts were made to dispose of goods locally, through municipal governments, chambers of commerce, or similar groups; finally, as a last resort, the goods were offered to the general public.[40]

A series of illustrations may clarify the procedure. Trucks and explosives, in very considerable quantities, were transferred within the government, especially for use in road building. Some machine tools were transferred to the Navy, some sold to educational institutions, and a large quantity sold at good prices to the Belgian Government.[41] Railway equipment proved among the most salable of the surplus items; the transportation systems of many nations badly needed such equipment.

Returning goods to the vendor, or to trade channels, was a more complex process. In several cases—machine tools, leather goods, and lumber among them—syndicates were formed within the trade. A sample contract provided that the goods were to move to the syndicate at the maximum rate of 4 per cent a month. At the end of two years any remainder was to go to the syndicate at a predetermined knockdown price.[42] Special provisions were inserted to fit particular commodities. At least twenty products other than those already named were disposed of in this same fashion.[43] Sale of raw materials to an industry syndicate seems to have been the most nearly standard procedure among the various methods used.

Machine tools, incidentally, also illustrate the many exaggerated rumors about the size of surpluses. Some early accounts reported from 200 to 300 million dollars worth of machine tools. After transfers, sales abroad, and proper reclassification, the actual surplus proved closer to 30 millions.[44] Similar exaggerated rumors circulated in connection with several other items.[45]

At Armistice time, Ordnance alone reported 326 plant facilities projects. Subsequently, in the settlement of claims, the government took title to enough property to bring its total value to half a billion dollars.[46]

[40] *Ibid.*, pp. 10-11.
[41] *Report of Chief of Ordnance*, 1919, p. 59.
[42] *Graham Committee Report, op. cit.*, pp. 574-576 *et passim.*
[43] *Report of Chief of Ordnance*, 1919, p. 58.
[44] *Iron Age*, January 23, 1919, p. 251; February 13.
[45] *Graham Committee Report, op. cit.*, pp. 17-19.
[46] *Report of Chief of Ordnance*, 1919, p. 22.

Government arsenals absorbed facilities worth 140 million dollars.[47] The remaining facilities, if on land not owned by the government, were commonly sold to the owner of the land. On occasion the government purchased the land and sold the new unit to an outside purchaser. In the case of cantonments the government acquired title on the theory that in the long run, ownership would be cheaper than salvaging lumber and reimbursing farmers for the ditches, concrete strips, and other newly-constructed impediments to easy cultivation.[48] In the case of entire factories, efforts were made to sell them under circumstances which would insure continued operation, even if the returns to the government were thereby lessened.[49]

For a final illustration, canned foods surpluses may be cited. These were valued at more than 120 million dollars.[50] December 6, 1918, General Wood promised that this surplus would not be marketed "this season." Nevertheless, by February, 1919, canned goods were offered for sale.[51] When the General made his promise, industrial hesitation still persisted. Subsequently, disposal of the surpluses was turned over to a Director of Sales, who did not feel bound by the General's promise; meanwhile the hesitation among businessmen had been replaced by a far more optimistic attitude. Prices were rising rapidly, and consumers complained bitterly about the high cost of living. Congress passed a resolution calling on the War Department to make its surplus foods available to the public and authorizing sale of government goods at retail.[52] Sales of carload lots were attempted through municipalities; this resulted in inconsiderable sales. Mail order sales through post offices were next attempted; this policy was unsuccessful. Finally, so-called "Army retail stores" were opened, at first in twenty-four large distributing centers; these sold, cash-and-carry, on side streets, for about 20 per cent under market prices. Complaints of dealers were answered with the statement that only about a dollar per capita was involved in the goods being offered.[53]

In the first postwar year, Director of Purchases surpluses (including canned goods), costing 357 millions, sold for seventy-seven cents on the dollar. Some A.E.F. surpluses were sold to miscellaneous purchasers, but the great majority were purchased by the French Government, which, as part of the settlement, assumed all claims against the United States Government. In all, sales of A.E.F. supplies realized 800

[47] B. Crowell, *op. cit.*, p. 276.
[48] *Ibid.*, pp. 262-266.
[49] *Graham Committee Report, op. cit.*, p. 606.
[50] *Ibid.*, p. 20.
[51] *Ibid.*, pp. 12-13; also cf. *Iron Age*, January 23, 1919, p. 251, and August 9, 1919.
[52] B. Crowell, *op. cit.*, p. 283.
[53] Library of Congress Manuscript Division, Wilson Papers, VI, File 42. Letter, Acting Secretary of War B. Crowell to President Wilson.

millions, in cash or on credit.[54] To March 1, 1920, the War Department had disposed of surpluses costing 2.6 billions at 64 per cent of cost.[55] It retained enough supplies and arms to equip one million men.[56]

Appraisal

Abrupt cessation of demands for military supplies, coupled with demands for governmental economy, resulted in immediate termination of outstanding contracts wherever possible. This certainly protected the Treasury, but it caused difficulties for labor. Hundreds of thousands of war workers were released at the same time that millions of service men also were being discharged. The wisdom of this decision to cancel "in the public interest" thus involves questions of public policy lying well beyond the scope of this paper. Omitting consideration, then, of that decision, some appraisal of the procedures which it entailed may yet be useful.

A picture emerges of large numbers of contractors experiencing considerable difficulty because of: first, a very narrow and legalistic interpretation of government obligations; second, a necessarily complicated system of renegotiation of contracts; third, the inadequacies of their own accounting records; fourth, considerable delay in receiving payment; and, fifth, the government's right to reopen cases at any time overpayment was suspected. On the other hand, the procedure for handling contracts had marked advantages over the alternative of throwing thousands of cases into the courts; and advancing 75 per cent of the undisputed portion of claims alleviated somewhat the freezing of contractors' working capital. The system used, though unavoidably complicated, successfully settled thousands of cases within months after the Armistice.

As far as the disposal of surpluses is concerned, the framework of a fairly workable policy was developed. In applying the policy to varying market conditions, the Department achieved fair adaptability, but at the expense either of breaking the promise of a responsible official to industry representatives or of causing uncertainty and uneasiness to industry. It is difficult to conceive of any feasible way to handle surpluses without adversely affecting some powerful interest group.

[54] B. Crowell, *op. cit.*, p. 314.
[55] *Ibid.*, pp. 253, 271.
[56] *Ibid.*, pp. 251, 319.

ISSUES AND POLICIES OF CONTRACT TERMINATION

By Alexander B. Hawes
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Perhaps I should begin by setting forth my limitations in dealing with the subject of this discussion.

First, I do not believe that anyone in WPB is yet in a position to announce a policy with respect to contract termination. Somewhat over a year ago the Board did participate in the formulation of a contract termination clause, now used in War Department supply contracts. But this clause has not proved entirely adequate or satisfactory, and the whole question has been reopened. A great deal of study and work has been devoted to it, and we think that the task of drafting an improved clause is almost finished, but it is still subject to considerable review. Second, the work done to date has been confined to fixed price supply contracts and therefore what I have to say will be confined to them. They probably present, however, the most important questions which arise under all types of contracts.

I shall try to set forth some of the problems we have encountered and some of the answers to them which have been considered. It would be very gratifying if this discussion revealed other problems or answers to them.

Of course, to begin with, it must be realized that a termination clause in a war contract can serve only a very limited purpose. It cannot assure conversion of industry to peacetime work. It cannot even settle in advance what wartime production is to be stopped. About all the clause can do is (1) to enable the government to stop production at its option without involving it in a breach of contract; (2) to assure the government and industry of a satisfactory basis for settlement of financial claims on such termination; and (3) to give the government fairly flexible powers to deal with other problems in the light of the circumstances under which termination occurs.

These objectives are, however, sufficiently important to justify the attention which is being given to the termination clause. If our only purpose were to enable the government to stop useless expenditure of money, labor and materials when the demands of war end, this could be accomplished without any special contract provision. The government could simply cancel its contracts. In the absence of limiting legislation, however, this method would subject the government to liability for breach of contract, in amounts which may be wholly unreasonable.

Under general principles of common law, in the absence of a special contractual provision, the contractor could recover from the government, on cancellation, the entire contract price less the amount of cost

saved to him by not being obliged to complete the contract. There can be no disagreement with the usual effect of this rule insofar as it reimburses the contractor for his costs. But insofar as it gives him the entire profit which he would have realized by complete performance, it seems unjust to the government, particularly in the case of cancellation of a long-term contract shortly after commencement of work. That is why, in the legislation at the end of the last war, Congress provided that recovery on contracts canceled at that time should not include any allowance for anticipated profit. In the absence of such legislation, the termination clause to which I have previously referred was evolved over a year ago. This clause provides for compensation to the contractor briefly as follows:

The contractor receives the contract price of all completed supplies for which payment has not previously been made (by way of advance or partial payments). With respect to the "uncompleted portion of the contract," the contractor receives reimbursement for all expenditures, including expenditures made with the approval of the contracting officer in settling related commitments. As a "profit on the uncompleted portion of the contract," the contractor receives a fraction of the profit which he would have realized if the contract had been carried to completion. This fraction is intended to correspond to "the percentage of completion" of the uncompleted portion of the contract.

With one qualification, this formula seems to government representatives to be a just one. On the uncompleted portion of the contract, the contractor is made whole and receives that proportion of the possible profit which he may be said to have "earned." The limitation of payment for the completed portion to the contract unit price may work a hardship on the contractor if the cost of earlier units exceeds what would have been the average unit cost had the contract been completed. In this respect the War Department clause could be improved simply by reimbursing the contractor for all costs, including costs of the completed portion, and giving him a profit allowance based upon all work done, including that done on the completed portion. Accordingly, all the alternative arrangements which I shall discuss assume reimbursement of all costs, and the variations relate to the allowance for profit.

Since the adoption of the War Department clause, thinking on the purpose of the termination clause has undergone some change. More weight is being given to the objective of securing a standard of settlement which will be simple, and therefore rapid, of application. The formula set forth in the War Department clause is, on this score, open to the same objection as the common law rule. Both require the calculation of anticipated profits. If an estimate of this amount is to be anything better than a guess, this means not only a careful examination of

the experience of the contractor up to the time of termination but also a projection of costs and profits to the end of the contract. The difficulties of this calculation are perhaps exceeded only by its uncertainty.

An additional difficulty involved in the application of the Army clause is in the determination of the "percentage of completion" of the uncom-
clause replaced had embodied a formula which, in effect, gave the con-
pleted portion of the contract. The termination clause which the present
tractor a proportion of anticipated profit equal to the ratio of actual costs to total anticipated costs. It is obvious that the numerator of this fraction may contain amounts of cost which either represent no work or greatly exaggerate the amount of work done by the contractor. For example, the cost of unprocessed material bought for the contract would increase the proportion of profit thus allowed. Moreover, the settlement of subcontracts, which may have been only partially performed, would ordinarily require payments to the subcontractors in excess of the price of supplies or services actually received. These settlements obviously would have to be considered as part of the cost and the excess referred to would again increase the proportion of profit awarded. To get away from such distorting factors, the present Army clause, as I have said, makes the portion of anticipated profit to be awarded depend on the extent of the work done. The use of this standard follows the analogy of construction contracts, under which payments are made to building contractors from time to time on the basis of the degree of completion of the work. Unfortunately the analogy is not entirely applicable. In the case of construction contracts, the standard is applied only for the purpose of apportioning over a period a contract price which will eventually be received in full by the contractor. The standard therefore need not be as precise as when it is to determine the total payment of profit.

To avoid the difficulties of application of the War Department clause it is necessary to risk a certain amount of theoretical unfairness to the parties. For example, if the contractor is paid, in place of profit, an agreed flat percentage of cost, the government may properly complain that this arrangement could bail certain contractors out of contracts on which they would have lost if performance had been completed. On the other hand, if the agreed percentage should be actually less than the rate of profit which would have been realized on completion, the contractor may complain that, through no fault of his own, he can be deprived of a part of a profit to which the parties had agreed he was entitled.

Despite these arguments, serious consideration must be given to the possibility of providing for the payment of an allowance for profit which will be calculated as a certain percentage of costs. The percentage to be applied could well be one agreed upon, in advance, at the time the par-

ties enter into the original contract. It could be either of two possible kinds: It could be the same rate of profit as the parties estimate in advance will be made if the contract is carried through to completion. Or it could be a rate established without regard to the individual contract and possibly, therefore, lower than the estimated anticipated profit. In the latter case it could be either a fixed rate for all contracts or a rate established by a sliding scale depending on the size of the contract.

An agreement beforehand between the government and the contractor as to the expected rate of profit, which can form the basis for an award upon termination, may have a salutary effect on negotiations from the point of view of the government. If the contractor reveals an unduly high estimated profit, he will undoubtedly be required to reduce his price. On the other hand, if he minimizes his estimate of profit to avoid a reduction in price, the government's liability on termination will be diminished.

In defense of a generally established rate, lower than the possible profit on the individual contract, it may be pointed out that, upon termination, the contractor is assured of all his costs, and thus enjoys the security of a cost-plus contract. On the other hand, a reduction in rate of profit as a result of termination may actually cause loss to a contractor. This could occur if he had paid taxes or made refunds to the government on profits estimated on the assumption that the contract would be completed.

Finally the two kinds of rates could be combined. An agreed rate for the individual contract, representing the parties' estimate of probable profit might be applied to the portion of the contract completed at the time of termination; while a generally fixed rate (in no case exceeding, however, the rate for the completed portion of the contract) could be paid on the costs attributable to the uncompleted portion. A justification for paying a lower rate on the latter portion of the contract would be that, ordinarily, a higher portion of the costs incurred by the contractor with respect to work in process would be represented by the purchase price of materials and a lower portion would be represented by work actually performed by the contractor.

If, however, a different rate is thus applied to the two portions of the contract, accurate application would require an allocation of costs as between the portions. To avoid this necessity, the contract price of the completed articles, less an amount for profit derived from the agreed rate, could be taken as the cost of the completed portion of the contract. All remaining costs could then be attributed to the uncompleted portion.

Whichever rate or combination of rates is applied to costs, it has been suggested that, for the purpose of calculating the allowance for profit, certain costs already mentioned should, in fairness to the govern-

ment, be excluded. These costs represent, generally speaking, a relatively minor amount of work on the part of the contractor. Thus there might be excluded the purchase price of materials unworked or unprocessed by the contractor. In addition, payments in settlement of subcontract obligations of the contractor which are in excess of services or materials received by him might also be omitted from the base.

Some question may be raised as to whether an agreement to pay as profit, upon termination, a percentage of the actual cost incurred violates the statutes prohibiting cost-plus-a-percentage-of-cost contracting. It is believed that the arrangement does not conflict with the principles or purposes of the statutes. The objection to cost-plus-a-percentage-of-cost contracts, on which the legislation is founded, is that such contracts give contractors every inducement to waste. The higher the costs they incur, the larger their profits or fees. Such an inducement, however, is not provided by an agreement to pay cost-plus-a-percentage-of-cost only in case of termination. Contractors will not be able to count upon termination. If the contract is carried through to completion the contractor will receive the contract price and no more. Up to the moment of termination, therefore, his incentive is to save on costs in order to increase his profit.

Application of any of these formulas at a time when a large number of contracts are being terminated under similar provisions will involve one practical difficulty. They all demand a determination of costs. Although it is expected that most claims will be settled by bargaining, there will undoubtedly be a considerable number of cases in which agreement cannot be reached and which will therefore require the services of cost accountants. The demands for cost accountants for this work may well exceed the supply, and the result will be delay of settlements and the partial defeat of one of the purposes of providing a special termination clause. Of course, the clause can include provision for immediate payment of sums, in partial settlement, as rapidly as the obligation of the government to pay such amounts becomes fixed and clear. For example, without waiting for further calculations, the contract price of completed articles can be immediately paid to be credited against final settlement. Then, as settlements are made with subcontractors, the amounts of such settlements can be turned over to the contractor. Other items of cost may be reimbursed as rapidly as they are ascertained. Nevertheless, the problem of financing the contractor during settlement cannot be entirely solved by this method.

To a certain extent this financing is already being provided by Sections 5 and 6 of the Federal Reserve Regulation V guarantee loan agreement. Under these sections, the government department interested in the production of the borrower agrees to guarantee that portion of his indebtedness to the lending bank corresponding to the portion of his

war contracts which are terminated. The guarantor also agrees to pay to the bank interest up to 2½ per cent upon the same portion of the indebtedness. In return the bank agrees, in case of termination, to suspend the maturity date and waive payment of interest pending settlement.

It had been hoped that the termination clause might possibly include provisions which would make Sections 5 and 6 of the guarantee loan agreement unnecessary. Accordingly, it has been suggested that the government should undertake to pay interest on sums due under the termination clause, to run generally from the date of termination to the date of actual disbursement. This might give the contractor's creditors added assurance of his eventual ability to pay his indebtedness. Of course, it would not satisfy those creditors who wanted immediate payment of principal upon termination or in accordance with a maturity date occurring prior to the contract settlement. Nevertheless, it would seem that such an arrangement is as generous as can be made in the termination clause itself without involving procurement agencies in extremely complicated agreements.

As I have pointed out, settlements even under the simplest termination clause which we have considered may involve considerable cost accounting. Where a contractor is working entirely or almost entirely for the government, a great many of the complexities of cost accounting could be avoided if a single termination agreement could be entered into between the government and the contractor. Such an agreement would do away with the necessity of allocating such costs as indirect labor or overhead among different government contracts, a task which from an over-all point of view seems entirely useless. The negotiation of such general termination agreements seems therefore to be an extremely desirable step. Before such agreements can be concluded, however, there are certain obstacles which must be overcome. While the contractor, by hypothesis, is working entirely or almost entirely for the government, he may very easily be working for more than one department of the government, and probably, in any case, under several appropriations. Under present legislation, legal objection might be raised to the transfer of funds from one department to another or even between appropriations through the operation of a general termination agreement.

The possibilities of arranging for general termination agreements have not been fully explored, but, even if special legislation is necessary, the idea seems to be well worth pursuing.

So far my discussion has related to termination of prime contracts. From the point of view of the government, it is equally important that work under subcontracts should be subject to termination upon the cessation of hostilities. The War Department clause therefore requires

the contractor, upon termination of the prime contract, to terminate the related subcontracts except as otherwise directed by the contracting officer.

Under that clause, the settlement of claims of subcontractors must receive the prior written approval of the contracting officer if payments on such settlements are to be reimbursed. This latter provision gives the government some protection against collusive settlements, but it does not set up any standard for disposing of subcontractors' claims arising from termination.

Since subcontracts often cover very large proportions of the work to be done under the related prime contracts, the government can hardly afford to ignore the basis of settlement of subcontractors' claims. Again it has an interest, as contractor, in cutting down its liability (even though derivative). As sovereign, it is also interested in accelerating the settlement of claims of subcontractors and their reconversion to peacetime production. These considerations lead to the conclusion that it would be desirable, if practical, to extend to the settlement of subcontracts the principles applied to the settlement of prime contracts upon termination.

Subcontractors also have evinced an interest in such an extension. This interest has occasioned some surprise, since, on termination, the subcontractor would have a greater claim at common law than under the provisions of the government clause. Apparently, however, what the subcontractors desire is that they be protected against less favorable termination clauses in subcontracts to which they sometimes find themselves subject either through their own inadvertence or as a result of the superior bargaining power of prime contractors.

There are several ways in which the principles of the prime contract can be extended to subcontracts. The prime contract can include a provision requiring the contractor to include a similar termination clause in his subcontracts. Or the prime contract may provide that any termination of subcontracts resulting from the termination of the prime contract shall be settled upon the same basis as the prime contract. Such a clause, being of the nature of a so-called "third-party beneficiary" contract, may not be valid in all jurisdictions and would probably operate only if the subcontractor chose to take advantage of it. Finally, the termination clause of the prime contract might provide for reimbursement of the prime contractor, in respect to his liability under subcontracts, only to the extent to which he would have been liable if the principles of the termination clause applied to the subcontract. This latter provision would leave the contractor free to omit from his subcontracts provisions similar to the government termination clause but would give him a strong inducement to include them.

Whatever method is used, there are practical limits to the possibility

of extension. First, there is the question as to how far the extension is to be carried. Prime contracts often fan out, through various stages of subcontracting, to thousands of contracts, agreements, and purchase orders. There is probably no logical point at which the extension can be stopped unless, perhaps, where the amounts involved become too small to warrant the administrative expenses of settlement pursuant to the termination clause. Thus, possibly, the use of the proposed standard termination clause might be limited to contracts or subcontracts for amounts in excess of $100,000.

Second, there is the problem of what to do about subcontracts which may have been entered into prior to the prime contract, but which are for materials or services which will be used in performing prime contracts. It is obviously impractical to require the renegotiation of such subcontracts in order to secure the inclusion of an appropriate termination clause. Perhaps in such cases the third method, suggested above, may prove workable. As soon as it became known that the government followed the practice of limiting its reimbursement of contractors on subcontract settlements to amounts calculated in accordance with the principles of the standard termination clause, contractors would quite generally limit their liability similarly.

Subcontractors have also sought a provision which would protect them against the possible insolvency of prime contractors upon termination. If the government undertakes to guarantee payments by the prime contractor to the subcontractor, the amounts it pays as a result will have to be deducted from the sums due the prime contractor. The question then arises as to whether the arrangement should go so far as to prefer the subcontractor over an assignee of the prime contract. It may be argued that such assignees as banks already have a device for their protection in the form of the Regulation V loan agreement. Accordingly, it may well be thought that subcontractors are entitled to a guarantee in the termination clause which is not subject to the claims of other creditors.

It should be noted that the possible guarantee can probably run only to the first tier of subcontractors. If it is important to guarantee payments by subcontractors to sub-subcontractors and payments under contracts even further down the line, it seems possible to do this only by having the government act, in effect, as a bonding company. There would seem to be as much legal authority for undertaking this function as existed for the execution of the Regulation V guarantee loan agreement at the time it was originally promulgated.

I shall not attempt to discuss all the provisions which should be included in an arrangement for termination, many of which are of only minor and technical interest. It is sufficient to point out that, in addition to provisions for compensation of the contractor, possible interim

financing, and treatment of subcontracts, there must be provisions with respect to the disposal of work in process, protection of property to which title is transferred to the government, principles of accounting to be applied, claims against the contractor for defective workmanship, adjustment in case the contract includes an escalator clause, handling of legal proceedings brought by subcontractors against the contractor for termination of subcontracts, and other matters. In fact, the number and variety of subjects to be covered under a complete standard termination arrangement is so great that the clause may become as long as the rest of the contract. Its length and complexity may be such that it becomes an obstacle rather than an aid to the conclusion of negotiations.

As an alternative, therefore, it has been proposed that the whole problem of termination be regulated by legislation. Such legislation could establish the proper arrangement for termination with some degree of finality. It would, presumably, receive wide publicity, and individual exploration of the termination arrangement would thereafter be unnecessary. Nevertheless, an attempt to legislate a particular termination clause into all contracts would seem to be extremely dangerous. Contracts are of such a variety that a single termination clause can hardly fit in all cases, even though its general principles may be acceptable. Moreover, the uncertainties of the legislative process are such that there is no guarantee that a bill as complicated as this would have to be would ever be passed in anything like its original form.

Another possibility which seems to have some of the advantages of legislation would be to have the termination arrangement embodied in regulations issued by some administrative agency, possibly the War Production Board. These regulations could then be incorporated by reference in all contracts made thereafter. Such regulations could be somewhat more flexible than legislation, and at the same time could take the problem out of the field of individual negotiation. Incorporation by reference would also cut down the physical length of contracts, an advantage not to be casually discounted.

Whatever method is used, there is little possibility of making the expression of the governing principles simple, when the subject is one which itself is so involved. The best that can be hoped for is that the principles can be made definite and easy of application.

In summary, much has already been done to prepare termination arrangements which will facilitate transition to peacetime production at the end of the war. The problem is admittedly technical, but its solution can have important economic effects. We would therefore welcome the views and suggestions of organizations such as your own, before final action is taken.

INDUSTRIAL CONCENTRATION IN THE WAR

By Thomas C. Blaisdell, Jr.
War Production Board

The following outline of developments in relation to large and small business during the war is made in the spirit of questioning. The positive statements should be framed as questions, since the data for positive conclusions are not available. These are some of the questions which must be explored.

A. *The Development of a War Economy*

1. As the war economy has developed, the relative proportions of our national product going into consumer goods and military goods have changed. Production of consumer goods has been sustained until fairly recently. At the same time production of military goods has been increased from an insignificant level to a point where outlays for military goods are almost half as much as for consumer goods. The production of consumer goods will continue to decline, and the production of munitions and military goods will increase. Eventually, outlays for munitions and other military goods will be roughly equivalent to outlays for the essential civilian goods necessary to keep the economy functioning efficiently.

2. During the past two years we have developed a series of new industries from relatively small beginnings; namely, the aircraft, tank, ordnance, shipbuilding, aluminum, magnesium, and plastics industries; and a synthetic rubber industry is in the making. It should be noted that government initiative, growing out of the war demand, has been almost entirely responsible for the rapid expansion of these industries. The expansion has been financed almost entirely by government outlays. The character of the expansion undoubtedly has been such that it did not encourage financing by private enterprise. As a result of the experience of private business in the munitions industry after the last war, private enterprise has been none too enthusiastic about undertaking investment in military and munitions production.

3. Conversion of existing plants to wartime production has been secured only by direct government activity and the pressure of government on private industry.

B. *Big Business and Small Business in the War Economy*

The public attitude toward small business, as expressed in all of the publicity media, by Congress, and in the expressions of government officials, has been one of sympathetic interest. This sympathy has

resulted in an overemphasis of the significance of small business from the standpoint of total production.

1. The business climate for small business was fairly good from 1934 to 1942. But the business climate was equally good for large business. Even though the economy has functioned far below full capacity, the trend of business activity has been upward, with interruptions of cyclical depression. By 1941 we were back in the long-run trend which had been interrupted after the business boom of 1929.

2. The predominant weight of government has been on the side of the large corporation during the development of the war economy. There are notable exceptions to this general statement, but by and large it remains true. The reasons for this weighting on the side of the large corporation are several. The large corporation has been better known. It could be held "responsible." Large corporations had fairly well developed organization, and thus existing administrative lines could be used. The subcontracting chains of large manufacturing organizations could be brought into the picture easily. On the other hand, if small businesses were dealt with directly, the government would have had to build a much larger contracting organization, and small corporations were not acquainted with the "road to Washington" as well as large corporations. It should be remembered, however, that in the light of the good business which the large corporations enjoyed in the civilian economy, many of them had to be persuaded to take war contracts.

3. The large corporations which dominated the scene before the last war still dominate today. Such names as General Motors, Ford, U. S. Steel, American Telephone and Telegraph, DuPont, will be found among those which have received the largest volume of prime contracts. However, grouped among this collection of giants is a new set of names, such as Consolidated Aircraft, Boeing, Curtiss-Wright, Lockheed. These were small business before the war. They have beome big business as a result of the war. The businesses directly related to aircraft production are among the group of small businesses which have definitely benefited from the war.

4. The shift in the character of financial control which has taken place during the war need not be permanent. "Wall Street" has undoubtedly declined in significance during the past decade. In private business "Wall Street" has been replaced by the financial control of "big management." Government finance has also replaced in part private financial underwriting. In spite of the fact that government has financed directly most of the wartime expansion, there is no reason to believe that public investment has permanently replaced private investment.

C. *Looking Forward During the War*

1. Small business and large business together have done pretty well so far.

2. Small business and large business engaged in civilian activity will not do so well from now on.

3. There will be a proportionately greater decline in the activity of small businesses because small business units are relatively more numerous in the areas in which production will decrease.

4. In spite of the conscious attempts to weight the scales in favor of small business, the net influence of government will probably still favor the large business. However, in the realm of new businesses ("enterprise") small business will still have a favored place.

5. Large corporations will continue to hold their dominant place in the economy.

6. Control of new investment will rest with government, at least for the duration of the war.

7. The character of business activity will require still further decentralization of management even though effective centralized controls will be necessary.

DISCUSSION

William H. Wynne: Mr. Moore's informative account of how the problems of contract termination and the disposal of surplus stocks were handled after the last war, led me to hope that Mr. Hawes would give us a comparable analysis of the similar problems which will have to be faced at the end of this war. He chose, however, to deal solely with the termination of contracts and, moreover, with only a single aspect of the matter; namely, the financial adjustment which should be made between the government and the contractor with respect to contracts terminated at the end of the war. His concern was mainly with the relative merits of various arrangements for conceding the contractor—in addition to reimbursement of costs—a profit on the uncompleted portion of his contract. Notwithstanding the fact, noted in both papers, that no such profit at all was allowed at the end of the last war, Mr. Hawes did not enlighten us as to why a similar solution of the problem after this war might not be, from a social point of view at least, a desirable one.

Mr. Hawes's treatment of his subject left untouched such questions as the following: How far may peacetime military needs make it desirable to continue existing contracts for war materials at the end of the war? Should all contracts other than those whose continuance may be justified for military reasons be canceled immediately, or should some be tapered off in order to cushion the shock of readjustment in communities where the resumption of peacetime employment is likely to be slow? Might adoption of the latter course retard rather than assist the eventual resumption of peacetime production? Would it not, therefore, be preferable to alleviate the difficulties of such communities by other means than the continuance of war contracts? If contracts for goods not needed for the military establishment are nevertheless continued, how should the goods be disposed of?

These questions and others which could be raised both in relation to the termination of contracts and the disposal of surpus stocks urgently need analysis. What Mr. Hawes set out to do, he accomplished well. I can only wish that in addressing this Association he had attempted to explore a little the wider issues of public policy opened up by his subject.

LABOR PROBLEMS

PROBLEMS OF INDUSTRY-WIDE OR REGIONAL TRADE AGREEMENTS

By DAVID A. McCABE
Princeton University

I shall confine my discussion to industry-wide agreements. Regional agreements, covering distinct geographical segments of the same industry but not connected through any "master agreement" for the industry as a whole, are not likely to be numerous enough or permanent enough to warrant the space necessary for treatment as a type separate from industry-wide agreements. They resemble industry-wide agreements much more than they do local bargaining in that they have to overcome the centrifugal forces of interlocality variation in living costs, transportation costs, and in the level of wages for "similar grades of labor in the locality." Once they have overcome the inertia of local differentiation, they tend to develop into industry-wide agreements, if the employers of the several regions are faced by the same national union. The boundaries of the several competitive regions are seldom either distinctly marked or fixed in time. The tendency is to bring the amount of the differentials allowed among the several regions under industry-wide control, if not to eliminate the differentials.

What are the prospects that the forces which had made industry-wide agreements in American industry so exceptional a decade ago will be overcome in the near future?[1] It would be hazardous to predict that industry-wide agreements will become general; yet there are good reasons for believing that in industries characterized by a wide area of production for the same market the trend of the quarter century before 1933 has been reversed and that industry-wide agreements will appear in a number of important industries.

We have to distinguish, of course, between the way and the will, between the technical difficulties and economic resistance. You will recall Professor Barnett's findings that national or regional agreements could not be expected to survive for long unless they were built around bargaining for wages and that this was not likely unless the wages were in the form of piece rates.[2] Here we encountered the technical difficulty, if not impossibility, in most industries, of fixing really standardized piece rates for the whole industry. Thus, industry-wide agreements seemed to

[1] I am not including transportation in this discussion. It presents some problems different from those in manufacturing or mining and to include it would make the paper too long.

[2] George E. Barnett, "National and District Systems of Collective Bargaining," *Quarterly Journal of Economics,* Vol. XXVI (1912), pp. 425-443.

be blocked by the technical difficulty of fixing uniform wages rates on a piecework basis.

In the light of changed conditions, we must now re-examine the possibilities. What degree of wage-rate control is necessary today for industry-wide bargaining and how difficult would it now be to attain it?

First of all, it would seem still to be necessary to control the ups and downs of the level of wages, of the percentage of general increases or decreases. I am referring to industries with wider than local areas of competition, not to such industries as the building industry, newspaper publishing, or local service industries. Without assuming too restricted an area of competition for these, it is obvious that it is much more limited for them than for most manufacturing industries. An industry-wide trade agreement covering the manufacture of structural steel, for example, would be difficult to maintain if some plants under the agreement were allowed to seize an important competitive advantage over others by securing a reduction in wages ahead of the others or delaying an increase that the others had already given. Whereas an industry-wide agreement in the construction industry, if one were possible, would not necessarily be wrecked by the fact that local wage rates were advanced or reduced in some localities without a similar change being made simultaneously in all the others.

The control of general percentage changes in the wage level does not require uniformity of wage rates, even where the area of competition is wide. What it does require is that the industry-wide joint conference shall control the geographical differentials. That may not be necessary at the outset but it is difficult to keep an agreement running on year after year while differentials are permitted to continue to which a considerable section of the industry objects and which are untouchable by the joint conference. In other words, the underlying basic wage rates in each locality as well as the general advances and decreases must be subject to the action of the joint conference. I am speaking, of course, of industries in which labor costs are an important part of the cost of production. And one gets the impression from the resistance offered in normal times to demands for wage increases that there are very few industries in which they are not.

The technical feasibility of this control is much greater when it is technically possible to fix piece rates for the work done under the industry-wide agreement. The piece rate shows the labor cost of the operation, as well as the earnings of the worker in terms of output. Where working conditions and facilities (for the workers) are uniform, uniformity of piece rates for a standardized product gives uniformity of labor cost and uniformity of earnings for skill and effort expended. And when differentials are allowed in piece rates for a standardized

product under uniform working conditions and uniform facilities, the degree of discount allowed in the labor cost is clear. The control of labor costs by unitary control of the wage rates is thus technically feasible.

It is this clear expression of labor costs in the wage rate that made it easier to get unitary bargaining for wages over the competitive area when it was technically feasible to set piece rates. Where the minimum time-rate system prevailed, or such piece rates as were set were fixed locally for unstandardized products, the wage rate did not reveal the labor cost in terms of like or comparable products and there was not the same pressure for unitary control of wage rates over the competitive area. Generally, the pressure for unitary control was not strong enough to overcome the inertia of interlocality differentiation in time rates.

If the desire for industry-wide agreement on wages is strong enough, it should now be possible to surmount the technical difficulties in the way of reducing wage rates to labor costs where the fixing of standardized piece rates is not technically feasible. We have made enough progress in the techniques of fixing production standards to accompany basic time rates to be able to measure the relative labor costs of comparable products made in different plants. A good time-study group could give a substantially correct estimate of the difference in labor costs involved in the rates under discussion—good enough, at least, to settle the truth of a contention that a particular rate gives a substantial advantage in labor costs. If this can be done, it should be possible to get closely enough to the kind of control over labor costs and earnings that a standardized piece scale permits, to secure unitary bargaining on wages through the use of basic time rates.

I realize the difficulty of standardizing basic time rates in a large industry with job classifications varying from plant to plant. But a uniform job classification should not be necessary, any more than uniformity of process or uniformity of pattern. The objective is not uniformity of all time rates but the avoidance of competition based on lower labor costs due solely to lower wage rates, or at least the control of such competition. Obviously it is the total of the labor costs involved in the wages of the workers to whom the agreement applies that counts. Variations in classification are not disturbing unless they represent important differences in labor cost for the same grades of labor on the same or similar products under similar conditions. Undoubtedly, an industry-wide agreement would lead to a greater approach to uniformity in job classification, but such uniformity is not necessary to the establishment of an industry-wide agreement.

An agreement could well start with basic time rates for a few brack-

ets, as minima, with provision for a joint committee, with expert assistance, to hear and act upon appeals concerning rates alleged to be unfairly competitive or to give too low earnings. Each plant could continue its job classification and basic rates and incentive system, if it has one, until its rates or standards were revised by the joint commission—if they were shown to need revision—to bring them into line with the labor costs standards of the remainder of the industry.

All of this sounds complicated, expensive, and a bit unreal. However, I believe it is technically possible if the industries want it enough. It does not appear today any more complicated and difficult, with today's techniques, than making an industry-wide uniform piece scale must have seemed a half-century ago in the glass and pottery industries.

The assurance to employers of protection against competition based on lower wages for the same operations has been the union's strongest argument with employers for unitary bargaining for piece rates over the competitive area. Uniformity has also been, for the most part, the union ideal in the fixing of piece rates. The unions have generally held that uniformity in piece rates not only benefits those who formerly received the lower rates but also supports the higher rates by removing downward pressure of competition based on lower rates and so strengthens the whole level for a subsequent advance, or against a threat of reduction in a downward turn of business. The same reasoning would doubtless be applied to basic time rates that represent equal outputs with similar conditions and facilities, if this relationship of equality in terms of output for the wage were once established. The union policy would tend to become substantially the same for time rates in output terms as it has been under piecework.

The kind of uniformity we are discussing is uniformity in labor costs for like operations with like facilities. It includes higher labor costs where the equipment or materials or other facilities are below standard for the worker. This is the usual union practice under a piecework scale. Nor need it exclude, any more than a uniform piece scale need exclude, lower labor costs where improved equipment is used which reduces the time needed to do the work. The uniformity would be in terms of basic hourly wages under given standards. And where these standards are maintained the labor cost should be substantially uniform.

Unitary bargaining for wages does not mean that no wage differentials for places or plants will be allowed within the agreement. It does not preclude differentials for outlying regions not in the main stream of competition or differences between areas that are practically set apart from each other as independent competitive units because of such controlling factors as relatively heavy transportation costs.

The case is otherwise, I think, with differentials to keep the employers enjoying the lower rates in competition with those required by the unitary agreement to pay higher rates. Such differentials are likely to be challenged by the higher-rate employers, and at times by the union on behalf of the lower-rate employees. The differentials will be brought repeatedly under fire and unless and until their justification is established they will constitute an element of instability and a threat to the continuation of the agreement system. If a differential can be clearly shown to mean lower labor costs to employers within the competitive area and lower earnings to the workers, it is not likely to be reconcilable for long with an industry-wide agreement.

I know that in the bituminous coal industry the so-called "principle of competitive equality" sanctioned lower tonnage rates for less favorably situated mines, with respect to transportation costs at least, as well as exemption in some degree from higher tonnage rates for abnormally difficult conditions for the miner. But the wage-rate problem in bituminous coal differs from that in manufacturing, not only because of the greater relative importance of the transportation costs that have to be absorbed by the employer, but also because many of the differences in physical conditions affecting the difficulty (for the miner) of getting out the coal are beyond the control of the employer. The practice of allowing differentials in the tonnage rate was well established before the second regional bargaining system was inaugurated. It is not at all clear now that it would not have been better to have made the fight for the principle of uniform tonnage rates for all employers with substantially the same physical conditions, with extra rates for abnormally difficult conditions. Certainly the experience with the tonnage differentials has not been such as to recommend a like policy in manufacturing. To be sure, with the miners' union it was not so much a matter of keeping the employers in business as of keeping them from becoming nonunion competitors. But—and this is a very important difference—the employer is no longer allowed to go nonunion unless his employees consent.

It is true that in a community industry the employees may choose to go nonunion rather than lose their jobs through the closing of the plant. However, if the union is willing to risk that, it will adhere to the principle of uniform wages for the same output with the same facilities and help the employer find the answer to the question of how to keep in competition. The union may choose this policy even if the decision costs it some of the weaker plants. For the union is under pressure from the members in the higher-rate places to put an end to competition at lower rates from other union plants, as well as under pressure from the union employers who are paying the higher rates. This pressure is likely to

be heavy when business is falling off. Employers who may not object to the weaker competitors being allowed a discount from wages when there is plenty of business for all are likely to insist on being allowed to take advantage of their superior competitive ability under uniform wage standards when there is not enough business to go around.

It makes a difference, I think, in the determination of union policy whether the most troublesome competition for the weaker union establishments is coming from nonunion establishments or from union establishments. The union is less likely to refuse lower rates to the weaker establishments if the business lost by these plants is more liable to go to the nonunionists than to other union plants. The problem of uniformity is mixed in this case with the question of what level can be maintained in union plants in the face of the nonunion competition. The policy of accepting reductions only where and when it must and holding them off as long as possible in the more prosperous plants may appeal to the union as more expedient than accepting a lower uniform scale. It is difficult to see, however, how the union is going to be able to keep on exacting that ability-to-pay differential from the stronger union plants. As a permanent policy it does not seem to fit the case unless the union has some unusual kind of a permanent hold over the stronger union plants that it obviously cannot exercise over the weaker ones.

I am not attempting to tell unions whether their wage policy should be one of a uniform rate for the same output from all employers furnishing equal facilities, or one of charging each employer what the traffic will bear. The point of interest here is the effect of the wage-rate policy on the likelihood of industry-wide agreements. If the policy is one of uniformity in labor costs under the same facilities, experience seems to indicate that such a policy may reduce employer resistance to an industry-wide agreement. The other policy might appeal to some employers who would refuse to come in under the uniformity policy but it does not seem that it would be more conducive to an industry-wide agreement on wages than the policy of uniformity. If unions do not want uniform wages in terms of output, where substantially equal facilities are furnished, then we are not likely to see much extension of industry-wide agreements on wages. I think most of them do.

What of employer policy with respect to industry-wide agreements in industries characterized by competition over a wide area? Will they favor them or content themselves with a negative policy of opposing the exaction of higher rates from themselves than from their competitors or, as the case may be, opposing raising their own wages to what others are paying? It seems to me that in the face of a national union policy of uniformity, or of fixed differentials moving simultaneously, the

employers may now favor industry-wide bargaining. As soon as they conclude that they cannot get rid of the union there is no longer the objection that an industry-wide agreement cements into the industry a union that otherwise might be got rid of. The old alternative of getting rid of collective bargaining altogether as a means of meeting competition rather than accepting the union as insurance against competition from other union producers based on lower wages, would be gone. Moreover, if the workers in the industry overwhelmingly want collective bargaining, the employer's fear of having to face strong nonunion competition "bound hand and foot by union restrictions" would also be gone. Indeed, the employers might prefer to meet the issue of "union restrictions" in industry-wide bargaining to having to accept the fact of restrictions in local bargaining without much chance to bargain about them. When it is no longer a choice between industry-wide bargaining and a fight for no union at all, with some chance to win, the employers may accept industry-wide bargaining.

Where competition is brisk and labor costs a comparatively large part of the cost of production the employers should be glad to get industry-wide bargaining. Otherwise they may have to fight a strong national union in isolated, individual-employer bargaining. If there is a ruling center of production, such as New York in the clothing industries, for example, it will not be isolated individual employer bargaining but group bargaining by the employers in the center, with the results controlling the pace for the industry as a whole. Even on that basis the union would seem to have an advantage over the employers. The ideal is bilateral industry-wide collective bargaining, not unilateral national collective action on the union side opposed to local collective action, if not individual employer action, on the other. Union domination of the industry with "employer representation" operating at the call of the union does not seem to be the perfect answer.

One of the most serious obstacles to industry-wide agreements in the past from the employer side has been the unwillingness of employers in the lower-wage localities to give up their differentials, coupled with the unwillingness of both the national union and the employers in the higher-wage localities to give open approval in a contract to their continuance. In part, the case for the differential has been based on the contention that the lower wages do not mean lower labor costs; that question could be settled, I believe, by investigation. Then there is the alleged justification of lower rates by lower living costs in the locality, or higher production costs or transportation costs. However, the tendency is now toward less geographical nonuniformity in wages in competitive industries. The operation of the Fair Labor Standards Act and the administration of the Walsh-Healey Act have been moving in that

direction. The war will doubtless greatly expedite the movement. Resistance to industry-wide bargaining in order to preserve place differentials in wage rates will be greatly lessened, I believe, by the realization that they cannot be preserved intact even under local collective bargaining.

If the continuance of collective bargaining in an industry with a wide competitive area tends to lead to industry-wide bargaining, why has it not produced it in an industry like commercial printing, in which unionism is very old? This is a hard one to answer. The need is undoubtedly there. However, the wider market was added to a local market and the inertia of local bargaining has been hard to overcome, especially so inasmuch as the newspaper field, which has been the source and residence of the greater part of the union strength, is still local. Before the general spread of organization in recent years the printing trades were in some localities but union islands in a local sea of nonunionism and the pressure to conform to local wage standards was heavy upon them. Yet these are, I think, but causes of delay rather than explanations of a satisfactorily stabilized situation.

I do not wish to imply that the continuance of collective bargaining will in any industry of wide competition necessarily lead to industry-wide bargaining. I am dealing only with tendencies. Nor do I wish to imply that without industry-wide bargaining on wages, including the control of local differentials, if any, there will be no industry-wide bargaining. Furthermore, I do not say that there will be no national bargaining in local market industries. I hope that there will be. But it seems to me that its coming should be looked for first in the widely competitive industries. If it does not come there, why should we expect it in the local-market industries? It is significant that when the zone stabilization agreements of 1941 were made in the shipbuilding industry, then not very well organized, the employers were at least represented, whereas in the national stabilization agreement of 1941 for defense construction, the government dealt directly, and apparently exclusively, with the unions.

There are serious obstacles to be overcome on the labor side in some industries before collective bargaining on an industry-wide basis with the employers can be secured. I refer not merely to the existence of rival organizations in the same industry but to organizational segregation along occupational lines. Industry-wide bargaining separately with a number of different occupational groups is hard to attain. The prospects are much brighter when the bargaining is unitary in depth as well as geographical.

However, the war has brought about much more co-operation among separate national unions in the direction of bargaining unity. The trend

may well be accelerated. Unity in bargaining does not necessarily require the merging or amalgamation of the unions concerned. Indeed, the same national union may be a party to several different industry-wide agreements, just as the same company may come under a distinct industry-wide agreement for each of several lines of product. But it does require that the unions act as a unit.

As to what we can expect from an extension of industry-wide agreements, one result is likely to be a synchronization of advances or decreases in wages throughout the industry. This should reduce the friction involved in changes in the money wage level. If the timing of the change is made uniform for all, there is no advantage to be gained in interlocality competition by holding back the increase or beating the others to the decrease. The friction is concentrated on the industry-wide issue, and though it may be intense for a time it is likely to be less in total volume than it would be if the issue were fought out separately in each locality. The disturbance in market conditions in the industry is also likely to be less.

It is probable that in the mass-production industries negotiations for wage advances or wage reductions involving a large number of workers will result in government intervention of one kind or another if the parties reach an apparent deadlock. It is much simpler and more in keeping with true collective bargaining to have the issue threshed out in an industry-wide conference than to attempt to dispose of it by "fact finding" or arbitration, in a so-called "key case." If the industry as a whole is to be expected to follow the decision in the key case, the industry as a whole should be in on the negotiations and on the submission of data and argument.

Thus, industry-wide bargaining will mean less flexibility in wage changes downward than we have had heretofore. We may look for that anyway, with strong national unionism and government intervention, even under local bargaining. It will also mean less flexibility in the upward swing than would come through local bargaining. It is harder for even a strong national union to get wage advances of uniform amount in all localities simultaneously than it is to bring about standardization or a "common rule" eventually, through local bargaining.

I have already expressed the conclusion that the extension of industry-wide bargaining will mean much greater geographical standardization of basic wage rates. That will also mean eventually a nearer approach to uniformity in labor costs. The employers with high labor costs at the standard time rates will have to improve their methods or drop out where labor costs are an important part of total costs. Lower wage rates will not be allowed as an offset to higher production costs of another kind. The tendency will be toward uniform rates in industry-

wide agreements, just as uniformity of rates is an almost universal characteristic of local bargaining for the same industry. The employer with higher transportation costs will have to absorb them.

Does this mean that industry-wide bargaining will eliminate differentials in wages based on differences in living costs which merely equalize real wages? The tendency will be in that direction, I think. Industry-wide bargaining on piece rates recognized no cost-of-living differentials. The objective was not equality of real wages but equality of money earnings and equality of labor costs to the employer under standard facilities. Geographical differences in the cost of living are too controversial and too subject to change to offer an acceptable basis for stable differentials in an industry with a wide area of competition.

Will industry-wide agreements retard the introduction of laborsaving devices and so tend to get advances in wages out of price advances rather than through the reduction of costs?[3] There is, of course, that danger. But it is a danger that goes with any joint agreement covering the market, whether that be nation-wide or local. Such a system of bargaining can be used to make the buyers shoulder the cost of restrictions just as it can be used to make the buyers who continue to buy absorb a wage advance. However, as between industry-wide bargaining, on the one hand, and local bargaining where the market is local, on the other, the record, so far as I know it, is in favor of the industry-wide agreements.

As between industry-wide and local bargaining in an industry producing for a national market, there may be more slowing down of technological innovations under the former system. There may be a joining of union fears with fears on the part of employers (as competitors) of this new thing with the result of hamstringing it by restrictions or by the refusal of a reasonable wage rate readjustment for its use. On the other hand, the chances are as good that the employers' side will stand out for the right of any employer to introduce a change under guaranteed safeguards to the workers. These safeguards as to displacement and wages are not likely to be any more restrictive than those the strong locals would enforce under local bargaining. To be sure, the employers of the members of the weaker locals might force the change earlier and under less restrictive terms, but that result might be balanced by what would happen in the localities where the union is strong.

It must be remembered that we are comparing industry-wide bargaining with local bargaining, not with nonunionism. Under local bargaining there will be opposition to unrestricted technological change that threatens displacement of workers or reductions in wage rates for

[3] See Sumner Slichter, "The Economics of Collective Bargaining," in *Collective Bargaining Contracts*, p. 49; also his *Union Policies and Industrial Management*, p. 344.

the new way as compared with the old. Local collective bargaining, buttressed by strong national unionism, will mean an "administered" rate of technological change just as it will mean administered wage rates. Industry-wide bargaining is as likely, if not more likely, to produce a reasonable compromise as is local bargaining. My impression is that national officers usually take a more farsighted view of such problems than local leaders. Industry-wide agreements have inherited more restrictions from local bargaining, I think, than they have introduced. Moreover, there is more of the goldfish bowl about industry-wide bargaining. Public concern as to what is going on is likely to lead to consideration of public opinion or even of the prospect of governmental intervention, if not of the public interest directly for its own sake.

Finally, industry-wide bargaining should produce more union cooperation with employers. The "union" is ordinarily a national union, in ambition at least. The degree to which a national union can cooperate with an individual employer to the end of helping him to get business away from other union employers in the same industry must be limited. Industry-wide co-operation between the union and the employers offers greater possibilities. If we are to have anything like joint councils in industry, they may be expected to be more successful and enduring if they are grounded upon industry-wide collective bargaining. We may get "united action of management and labor" in an industry without a foundation of industry-wide bargaining in a great emergency. When the emergency has passed the parties are likely either to proceed to lay such a foundation or to go their separate ways.

SOME PROBLEMS OF POLICY IN COLLECTIVE BARGAINING PRACTICES

By C. O. Gregory
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In this paper I propose to discuss some of the activities and objectives of labor unions which have troubled many disinterested persons. Since I am a lawyer, I cannot very well help reflecting information and angles gleaned from appellate court decisions. But I shall endeavor not to expound law, even supposing that law in this field is susceptible of exposition. I shall, rather, describe policy as it is revealed in a few statutes and in reports of court decisions, using this as a point of departure for critical observations.

Perhaps I should point out that this discussion will inevitably center around federal labor policy and will touch on local views only occasionally. This, of course, is natural inasmuch as American industry on the whole has come to serve national markets and draws on the whole country for its raw materials. But the force of this observation should appear shortly.

Since this paper is largely concerned with union restrictions on free competition of various sorts—a concern which is closely tied up with the Sherman Act—I believe that I may kill two birds with one stone by describing the development of organized labor's most sweeping restraint of competition in national markets and at the same time indicate what the prevailing policy of the Supreme Court is in administering the Sherman Act, for some such background is essential to an understanding of Mr. Arnold's program of union control.

While the immediate aim of a union may be the achievement of material advantages for its members in particular units of a nation-wide industry, its long-run aim must be to retain already achieved gains. This implies a program of nationally affiliated locals governed in accordance with a common set of standards. Presumably the achievement of wage increases and of a shorter work week means an increase in the operating costs of the unit in which these gains are won. If so, these increased costs will be reflected in the price of the product. Now, if we may also assume that the operating cost of a unionized shop is higher than that of an unorganized shop—an assumption not always, but generally, true—then we may safely conclude that the union-made product competes with the nonunion product at a disadvantage in national markets. This competition between union and nonunion goods has provided organized labor with its keenest organizational incentive and has given rise to the unions' major economic problem—the elimination from national markets of nonunion competition by extending

organization throughout a given industry. The absorption of the United Mine Workers in this problem for so many years is a conspicuous example of what I mean. In their annual conventions year after year they discussed and voted action upon the demands of unionized operators that competing nonunion mines would have to be organized or else they, the unionized mines, would either have to dispense with established union standards or shut down. It was this sort of pressure which probably gave rise to the impulse of the United Mine Workers to create a sort of limited universal price control over national coal markets, in connection with which the Supreme Court announced one of its earliest policy viewpoints concerning organized labor and restraints on free competition in national markets.

The Coronado strike, a direct exertion of pressure with outside interests aimed at procuring a closed union shop, succeeded in closing down the mine and, by stopping production, keeping its output from entering interstate commerce. This, of course, was a restraint on commerce and was assailed as such by the mine operator under the Sherman Act. But the Court could not condemn this restraint as a violation under the Act without at the same time declaring illegal by implication all successful strikes, for any purpose, in units of industry supplying national markets. Such an extreme position the Court could not take as a matter of practical politics, let alone considerations of civil rights and common law. For social opinion as well as the Courts had long since accepted as proper the strike for immediate objectives such as wage and hour conditions; and several of our state supreme courts had openly approved as lawful the strike for the closed union shop. To conclude in the teeth of such social, legal, and political developments that, just because a given unit of industry shipped its products to buyers in other states, a strike preventing such continued shipments, through stoppage of production, was therefore unlawful under the Sherman Act, while the same kind of strike at a plant selling its product locally was perfectly lawful for all purposes, would be to invite certain political disaster and to disgust the thinking people throughout the land. Although I believe it would have been perfectly proper for the Court to have gone to this length by a literal application of certain provisions in the Act, I feel sure that, by so doing, the Court would have brought about either immediate repeal of the Act or clearly expressed legislative removal of the unions entirely from its application. As it was, I believe the Court to have decided the issue wisely; but its reasoning was feeble and evasive—mainly that the restraint was "indirect" and that, after all, production was only a local function.

It is somewhat amusing to see the Court crawling in this way, particularly when it had previously with such confidence declared unlawful

under the Act the Danbury Hatters secondary consumption boycott, and the boycott of the machinists' union in the Duplex case. But these cases, the Court said, were different. Actually, however, the only difference was the type of coercive technique employed by the union to reduce the company to a state of nonproduction. Of course, the practical difference was that the Court did not mind cracking down on a secondary boycott, which all so-called "right-minded" people regarded as unlawful, anyway, and could refer to it as a direct restraint with a clear conscience, in spite of the fact that it was regarded as quite lawful by several state courts.

But the Court's desire either to "get" the union in the Coronado case or to spike the organizational strike in national industries must have prompted it to devise a method for using the Sherman Act to the desired end. For the Court threw out a dictum to the effect that evidence indicating that the strike had been intended by the union to keep the mine's nonunion coal from competing with union-mined coal in a national market would be sufficient to prove a violation of the Act. But it had to be evidence of subjective intent. I have always thought this to be a clear-cut case of a *verbum sapienti.* I believe the Chief Justice realized that the point of most organizational strikes was, by unionizing the product of the struck shop, to eliminate its competition in its nonunion character with the already unionized product in the same market. And he probably knew that astute counsel could dig up this evidence in most organizational strike cases. Anyway, counsel did just that in the Coronado case by procuring a disgruntled union participant in the strategy of the strike to squeal; and by the alchemy of legal theory the same strike which had formerly been held not a violation of the Act suddenly became one.

Although few, if any, of our leading jurists or economists realized it at the time, the Chief Justice had, in his hint to counsel, anticipated what was twenty years after to become the rationale of the Act as it applied to organized labor. In the Apex case Justice Stone declared in no uncertain terms that strange misconceptions of the application of the Sherman Act to labor had long existed. Most of this, he said, was confusion between such restraints on or interferences with commerce as would give Congress the power to act at all under the commerce clause and, on the other hand, such restraints or interferences which Congress in a particular statute had intended to forbid. For instance, many people thought and still think that because the Court has held that Congress has the power in the Wagner Act to protect commerce from strikes by outlawing unfair employer practices, it should therefore hold that all such strikes are likewise illegal restraints under the Sherman Act. Now I agree with Justice Stone that this in itself is poor

reasoning. All the Wagner Act cases really mean is that Congress always has the power under the commerce clause to relieve commerce from the burden of strikes if it wishes to do so. It obviously *did* wish to do so in the Wagner Act, although not by declaring such strikes unlawful, but rather by outlawing conditions which it thought gave rise to them. Did it wish to do that in the Sherman Act? Certainly that is a matter of doubt. It said nothing about strikes or other labor activities in that Act. Really, it said nothing much of anything, except to evince in a general sort of way a desire to protect commerce from the dangers of combinations, trusts, and monopolies. And if such benevolent yearnings could, through analogy to old common-law restraints of trade, be construed as a general effort to protect consumers and goods markets from the competition-killing restraints of combinations, then I think Justice Stone was justified in concluding that Congress had meant in the Act only to protect markets from the restrictive controls which combinations interested in controlling the markets *as such* were wont to place on them. All the plaintiff had shown in the Apex case was that the union had by its sit-down strike or seizure closed down the shop and forcibly prevented certain goods from being sent out to plaintiff's customers—coercion practiced by a defendant not interested in cornering the market on silk stockings, but interested only in compelling a manufacturer, through economic embarrassment, to go union.

Justice Stone clearly stated existing national policy toward union activities to be only one of preventing their control of goods or commodities markets, labor and services being clearly excepted from inclusion as a commodity. Thus, he declared, any union activity directed toward control of the labor market is under existing federal law perfectly acceptable; and the fact that such activities interfere with the shipment of goods in interstate commerce or with the production of goods destined for such shipments cannot be regarded as unlawful as long as they are carried on to coerce an employer, through economic embarrassment, into dealing with a particular union. But, the Justice continued, the boycott restraints on commerce are nevertheless violations, even though they are clearly organizational efforts, *if* actually they substantially affect the market in the product of the employer involved. What he means by "substantially" nobody knows, since he said that the Danbury Hatters, Duplex, and Bedford cases were still good law. And then came the most questionable part of his opinion, in view of his thesis that only market controls as such were to be considered unlawful. He declared that universal unionization of an industry, even if it were proved to be an undertaking to eliminate the competition between union-made and nonunion-made products, is permissible because such an aim is such an integral part of the American

union movement that to deny it, even if it is an obvious market control of goods, would be virtually to deny unionism. But we have accepted unionism as a part of our economic life; therefore we have accepted its most fundamental economic objectives. Subsequently, of course, Justice Frankfurter, with three other members of the present Court concurring in his opinion, went far beyond Justice Stone's position and declared that any union activity fairly described either in section 20 of the Clayton Act or in section 4 of the Norris-LaGuardia Act, apparently regardless of its object, was lawful for all purposes under federal law. This apparently means that these four justices believe Congress not to have forbidden any union conduct not involving fraud, violence, or defamation; and the upshot of the Hutcheson case leaves the unions a free hand to achieve any end they wish as long as they resort only to purely economic pressures, regardless of their effect on commerce or on any other part of our economy. It must be fairly clear now that Congress has done virtually nothing to prevent the abuses which worry Mr. Arnold. For the Court has told us that the Sherman Act is very definitely not the Thurman Act!

Mr. Arnold deprecates at least five labor union practices which he believes too unwholesome for the continued passive sanction of Congress. These are, briefly, (1) practices designed to prevent the use of cheaper material, improved equipment, and more efficient methods, (2) practices designed to compel the hiring of useless and unnecessary labor, (3) practices designed to enforce systems of graft and extortion, (4) practices designed to enforce illegally fixed prices, and (5) practices designed to destroy an established and legitimate system of collective bargaining, by which he means to refer to the so-called "jurisdictional" dispute in both of its possible meanings. Now it is extremely difficult not to accept Mr. Arnold's program. He, in turn, has gone far to meet organized labor halfway. I believe he has always accepted the late Justice Brandeis' position that nationally organized unions should be allowed a very wide latitude as a matter of civil rights in promoting organization and in collective bargaining. I believe Mr. Arnold, in his desire to distinguish clearly between organizational and bargaining activities on the one hand and what he would term illegitimate efforts toward gain on the other, would agree with Justice Brandeis that the old boycott precedents referred to above should be overruled. I believe, indeed, that he would even accept a good deal that Justice Stone said in his Apex opinion. But in his attempts to safeguard the interests of American consumers, all he had to play with was the Sherman Act as he found it; and now it transpires that he needs the help of Congress itself. The question has been asked whether the consuming public cannot be protected against the impositions of labor unions through

the fact that in collective bargaining between unions and employers there exists an inherent antagonism of interests between the parties to such bargaining, so that the employer, in serving his own interests, beats down the union in such a way that the public interest is automatically served. It would, indeed, be a rash conjecture to assert that there is *nothing* in this hope; but it seems safe to say that there is not much in it. It is idle to assume that the average employer will push his supposed interests far enough ever to justify a suspicion that he might thus protect the public interest. I should suppose that employers are far more interested in continued operations on a profit-making basis and that they are not unaware of the advantages of purchasing peace by making concessions, particularly if they can at the same time insure that their competitors will be made subject to the same concessions they themselves have granted. There are other factors, also, which lead me to believe that employers may be prone to capitulate to the demands of unions, as long as they know that their competitors will all be in the same boat. Thus, an increasingly large amount of the purchasing power in this country is getting into the hands of organized wage earners, and producers can less afford to associate their products with an antiunion bias. This alleged consumer protection through employer-union antinomy seems a very thin reed on which to depend the public interest. My firm conviction is, then, that the only feasible hope for the elimination of undesirable union practices harmful to consumer interests is, first, for the proponents of such a program to take a not-too-broad view of what in unionism is objectionable and, second, for them to awaken sufficient political interest in the public to have Congress pass legislation specifically addressed to particular, objectionable practices or to any practices curtailing particular desirable economic processes. It seems essential that this reform program be not too sweeping. For instance, a good deal of organized labor's self-help procedure, like strikes, boycotts, etc., as well as some of their institutions, like the closed shop, single and universal, already seem to be confirmed national institutions which it is now too late, culturally, to prohibit. After all, Justice Stone was substantially correct when he said that acceptance of labor unionism at all implies its acceptance as it is, including the institutions and most of the practices which make it what it is.

With respect to outlawing interferences with the use of cheaper material, improved equipment, and more efficient methods, as well as compelling the use of unnecessary labor, the American judiciary has already shown signs—in our state courts, at least—of retracting its former laissez faire notions about freedom of union self-help activity, although the Supreme Court under the Sherman and Anti-racketeering Acts has staunchly refrained from interfering with the gainful pursuits

of certain unions carried on at the expense of society through the loss of progressive production methods. The rationale of the New York court, for instance, in denying the musicians' and stagehands' unions the privilege of striking to prevent the use of canned music in a traveling opera enterprise employing only live singers but not live musicians is, first, to deny the existence of a labor dispute in order to take the case out of the state anti-injunction law and, then, to assume that any union opposition to mechanical progress of service to mankind is, in the nature of things, unlawful. It is, of course, hard to find fault with the court's instinct in this case; but it is harder to condone its ruthless disregard of the law as the legislature has written it. Thus, we may hate strikes or boycotts directed against painting machines, portable concrete mixers, one-operator busses and trucks, prefabricated houses, cheaper and better building materials, movie organs, recorded music on the radio, and a host of other new products and devices which would make living cheaper and more comfortable for consumers; but we must remember that established unions have vested interests in the continuation of older methods which require more labor and thus provide more jobs. At least they think they have; and they are privileged to act on their convictions under our present laws unless the public through open political action takes steps to pass legislation specifically directed against continuance of practices intended to defeat progressive methods and to retain high labor costs. Prohibitory legislation alone will not be the complete answer, since technological displacement of workers is a social problem, to deal with which a well-co-ordinated displacement unemployment compensation, a retraining program and an intelligent re-employment service are required. We may agree that employees alone should not get the complete advantage of more efficient operations. Certainly we may agree that employers should not get the full benefit of such technological changes—a result not likely to happen while competition remains alive, except insofar as patents or devices making such changes possible may keep prices up. At the same time it may be difficult to agree with the Wisconsin legislator who proposed in a bill that half of the savings effected by all laborsaving devices should be put into a fund to pay unemployment compensation to those displaced by the technological changes in question. Since the public as consumers should get the entire benefit of such developments, it is obviously up to the public to place a premium on these changes by assuming the burden of temporary maladjustments which they cause in employment. And a program of this sort obviously cannot be worked out by collective bargaining since it must have a uniform over-all effect such as can be handled only through regulatory legislation and public funds.

Little space need be devoted here to Mr. Arnold's plea for sanctions

against union graft and extortion. Happily, it is not very widespread. This plea calls for rather straightforward regulatory legislation very analogous to that already passed to control the abuses of corporate power, perhaps not unlike the Securities Act and the Securities and Exchange Act. Such a program would encourage the filing of individual claims for redress by businessmen adversely affected and by individual workmen, union members or others, who had suffered from unfair entrance exactions or from some other form of internal maladministration of a particular union.

Quite a different problem is presented by union attempts to enforce illegally-fixed prices—Mr. Arnold's fourth complaint. This is a practice for which, Justice Frankfurter asserted as dictum in the Hutcheson case, the unions may be called to account under the Sherman Act as it now stands. For it is hard to see, under our present law, how any price can have been illegally fixed by union action alone. And when a union connives with one or more manufacturers or business houses to maintain prices, the Court, through Justice Frankfurter, has said that this is going too far. Yet this assurance is not comforting, in light of the Court's general remarks in the Hutcheson case. For if a union puts its price-fixing sanctions into effect by means of the types of peaceful, economic pressures described as nonenjoinable in the Norris-LaGuardia Act and in section 20 of the Clayton Act, I for one find it hard to believe that such conduct will be held illegal for any purpose and under any circumstances unless the Court overrules its stand in the Hutcheson case. And yet all must agree that if employers cannot combine to maintain prices, certainly the unions should not be allowed to do it either independently or for the employers. Again, however, we are confronted with the full implications of the universal closed union shop throughout an industry as a device to protect hard won labor standards by maintaining at a uniform level the price of the commodity in question in national markets. But this is a feature of unionism which Justice Stone has assured everyone is not unlawful but is, rather, an integral factor of legitimate unionism. Hence about the only instances of price control which can be outlawed are those achieved through connivance with employers by the process of collective bargaining.

When Mr. Arnold insists upon a measure to prevent union attempts to destroy an established and legitimate system of collective bargaining, he is referring to those union power grabs which are commonly known as jurisdictional disputes. The original jurisdictional strike was a combat between two craft unions, both of which were usually affiliated with the same national federation, the contest being to determine which union was going to perform certain specific work. Shocking wastes have occurred, particularly in the building trades, because of such juris-

dictional disputes. The A. F. of L. attempted to reconcile these differences within its own organization by creating a Board of Jurisdictional Awards; but this Board's decisions were never very effective, apparently because they were influenced by internal Federation politics. The stronger union seemed to win the awards too consistently. In the meantime huge building projects were forced to a standstill while the general contractor and owner did not care which set of workmen did the job as long as it was done. Such interference with building may not seem to be a matter of federal concern; but it is within Congress' power to control because of the effect such delays have on the interstate movement of building materials. The analogy to the exercise of power in the Wagner Act is perfect.

Strictly speaking, the plight of the general contractor in such cases is not much different from that which confronts him when he introduces nonunion labor on a certain job in a building project where union labor is performing other jobs. A strike called by the local building trades council, comprising all of the unions normally involved in construction, to compel the hiring of only union men for all of the work is, however, accepted with more or less complacence nowadays, because the employer's way out of the strike is so clear. All he has to do is to hire union men. Now the difference between a jurisdictional strike in a project where all employees are union men and a strike by union men where some nonunion men are employed may well be in legal or other theory only one of degree. It may be said of each strike that it is but the collective exercise of the civil right of workingmen to refuse employment except under conditions congenial to their interests. But I think it plain that when such differences of degree result in terrific economic loss unavoidable by the employer, then it becomes a matter of sufficient public interest, so that the alleged civil right of unions to conduct jurisdictional strikes can and should be curtailed. The other type of jurisdictional dispute—about which we hear more these days—is really the interunion system conflict for power and control. Examples of this are the conflicts between the A. F. of L. and the C. I. O. carpenters' and woodworkers' unions to organize the employees in units of industry which their respective organizations are set up to control. Other instances are the conflicts between unions affiliated with either of the larger national systems and relatively local independent unions, the current struggle between moving picture operators' unions in New York being a graphic example. These conflicts are a matter of grave public concern for several reasons. Thus, where one of the unions has members in two operations so that the first operation manufactures a commodity used in the second operation, while the other union has established itself only in the first operation, the more comprehensive union has, and uses, a beautiful opportunity

to boycott the product of the other union by refusing to work on it. Such boycotts create real interferences with the interstate movement of commodities; and while they are fundamentally the collective exercise of civil rights to work or not to work except under agreeable conditions, yet they create disturbances of commerce which would certainly justify suitable Congressional action, whatever that might be.

But a better reason for worry concerning this internecine strife is the ridiculous plight in which it puts employers who do not care whether one union or another represents their men as long as production can continue. For these employers cannot any longer decide with which union they will deal. Under the Wagner Act that is a matter for the employees alone to decide. Still, the Wagner Act does not say that unions may not undertake to influence the choice of the employees in any particular plant; and outside unions have with impunity been going so far as to tie up plants where the employers have bargained and contracted with the unions certified to them by the National Labor Relations Board as the duly chosen representatives of the majority of their employees. Now this sort of coercion may well be the collective exercise of civil rights to picket or to refuse work not agreeable to the men in question if the device used is the boycott, and it may well be actively carried on in the "allowable area of economic conflict." But the definition of civil rights and of legitimate economic conflict might well be made in light of the common interests of all and not merely to further the interests of those groups claiming these extraordinary privileges.

These practices which have been recounted in this paper should be subjected to any controls specifically aimed at them in accordance with open, democratic, political processes and should not be sheltered behind the cloak of broad and general constitutional protection. At the same time, in the opinion of the Supreme Court, Congress has not, up to the present, either in the Sherman Act or in any other law, done anything about correcting these practices. I believe it would be unfortunate for any Congress to abolish the outstanding labor legislation of the past ten years. But I believe that Congress can improve such legislation if it makes a careful and thoughtful effort to prohibit the continuation of practices such as those I have recounted here. For it seems abundantly clear to me that as long as the large, nationally federated unions retain the privilege to exercise powers of this kind, it is absolutely hopeless to expect them to abandon such privilege in their collective bargaining with employers. In short, I cannot believe that there is any possibility of protection to the consuming public to be achieved through collective bargaining because of the inherent opposition of interests between the parties to collective agreements—the employer and the union.

PROBLEMS OF UNION RELATIONS IN PUBLIC AGENCIES

By Gordon R. Clapp
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In this brief paper I shall attempt to describe the status of public employee unions, define the major issues and the areas of greatest confusion, and suggest the basic principles that may provide a workable approach to the problems of union relations in public agencies.

Contrary to the predictions of some observers, the conditions of wartime have brought no lessening of effort on the part of public employees to clarify and advance their status. Public employees, like other groups of citizens, have felt the impact of current trends in the cost of living, the pinch of static wage levels, the unparalleled growth of employee-union participation in the war efforts of private industry, the need for training, and the threat of future job insecurity as the requirements of war bring new thousands into the public service. And underneath it all one senses the desire of public employees for recognition of the importance of what they are doing in a democracy organized to win a war.

Unionism among public employees has increased significantly in the last decade. On the basis of the most complete and reliable sources, surveyed as of 1939, approximately 15 per cent of all public employees, including public education, were members of unions. Among federal employees, as of that date, union members constituted some 34 per cent; among state, county, and city units the percentage was approximately 13. These percentages reflect small but steady increases over the figures shown for the two years immediately preceding 1939 and indicate substantial increases over estimates of membership in the early thirties.

In 1939, a reliable survey recorded some twelve or more union agreements between employees and municipal, county, and state governments, excluding agreements claimed by unaffiliated unions, and agreements covering municipal utility services.[1] The September, 1942, issue of *Public Management* reports, as of that date, that some forty-two cities had contracts or working agreements with unions of employees affiliated with the A. F. of L. and the C. I. O. This figure apparently does not include agreements in existence covering firemen and public utility employees.

Much of the discussion of the problems of union relations in public

[1] *Employee Relations in the Public Service,* pp. 16-17. A report submitted to and published by the Civil Service Assembly of the United States and Canada, Chicago, 1942. The report was prepared by the Committee on Employee Relations in the Public Service for which the writer served as Chairman. The report deals at length with many questions discussed briefly in this paper.

agencies fails to recognize this significant growth of unions among public employees. There is a tendency to continue a debate of theory already disproved in fact and practice. These theories usually attempt to explain why public employees cannot organize themselves into unions, why they cannot affiliate with the organized labor movement, why they cannot bargain collectively with public managers, or why the government cannot recognize public employee-unions or sign labor contracts with them.

The quickest answer to these theories is to state the facts: public employees are organizing and affiliating with the organized labor movement, they are bargaining collectively, and governmental managers are signing agreements with their employees represented by unions. But it is just this conflict between theory and fact which puzzles so many public administrators. It is this very contradiction which makes many public managers wary and apprehensive. For to some the theories appear to have authoritative support; to them the facts suggest a threat to the established and traditional theories of government and public management and they want no part in the experiment.

Let us take a look at two of the most prevalent theories on employee relations in the public service. The bulwark of opposition to recognition of unions and to the development of collective bargaining habits in the relationship between employees and managers in the public service centers primarily on two points, usually stated as follows: first, that unionism is not desirable or even permissible in public employment because employees cannot strike against the sovereignty of government; second, that even were unionism to be permitted and recognized in the public service, collective bargaining as carried on in private industry—with signed contracts covering wages, hours of work, and general working conditions—is not legal.

Now these propositions mix theory and fact with remarkable confusion. As to the first proposition—that unions and strikes in the public service are synonymous—whether it is good theory or not, as a practical matter, it is beside the point. When a public manager in the state, county, municipal, or federal government is confronted with the threat of mass employee quitting or a strike, he can assert the theory of governmental immunity with the backing of the best legal counsel without any assurance that the threatened strike will collapse. Strikes, as a rule, succeed or fail as they are supported or condemned by the weight of public opinion. And the public, as a rule, is greatly influenced by the merits of the dispute, the grievances of employees, or the past record of management's fairness. Only occasionally does the public interest itself in the technicalities of the legal powers of the contending parties.

It is a fact that public employees have on many occasions used the strike as a method of pressing their demands.

But employee unions are the first to declare their abhorrence of the strike as a method, whatever their views on the question of their *right* to strike. It is most important to remember, however, that the record of strikes against public employers shows that by far the majority of instances involved unorganized employees—not employees in affiliated unions.

Nowhere has any substantial evidence been found to support the assertion that unionism in the government necessarily means strikes against the government. As a matter of fact, the record of strikes in the public service supports the theory that strikes are less likely to occur if employees are organized into responsible unions.[2]

In view of the facts of record we should not attempt to dismiss the question of unionism in the public service by confusing it with the narrow question of the right to strike.

The second proposition—that collective bargaining in the public service is not legal—is equally misleading. Collective bargaining is a process, a method, a concept of procedures by which employees deal with management on matters affecting employee interest. The term collective bargaining usually implies that a majority of an employee unit organizes a union and selects its representatives without interference from management; that the management recognizes the union as the exclusive representative of the employees in the unit to which the negotiated conclusions will apply; that wages, hours of work, methods of handling grievances, and general conditions of work are subject to negotiation; and that the results of the negotiation worked out across the conference table are incorporated in jointly agreed upon declarations, understandings, or signed contracts or agreements.

Now it is obviously faulty reasoning to say that because public administrators cannot in specific instances commit the government to a specific proposition, as, for example, the closed shop, they therefore do not have legal power to use the collective bargaining process. And yet the most authoritative attempts to label collective bargaining illegal in public employment have used precisely this reasoning.[3]

In the light of the many growing instances of collective bargaining agreements between public employee unions and their municipal, state, and federal employers, one must conclude that many governmental units have found that collective bargaining is legal in the public service.

[2] For statistics and discussion see David Ziskind, *One Thousand Strikes of Government Employees* (New York: Columbia University Press, 1940).

[3] For example, see "Power of Municipalities to Enter into Labor Union Contracts—A Survey of Law and Experience," Report No. 76, National Institute of Law Officers, August, 1941.

The well-advised official who sincerely wants to work out a constructive policy to follow in dealing with the pressing fact of employee relations will leave these futile exercises in theory and academic debate and go to the merits of the question. He will recognize that the problem is essentially one of managerial sense and judgment. He will recognize that the answers lie not in the field of law or political theory but in the field of management. Once we recognize the desire of public employees to establish a rightful place in the sun and a rightful voice in the determination of their working conditions as a normal and natural desire we will get somewhere with this perplexing problem.

Suppose we assume that we want to find the best answers with which to face the employee relations problem. How do we proceed?

First we can ask ourselves a few simple questions and supply the factual answers. The first question arises out of a nostalgia for the good old days of man-to-man relationships with employees. Few managers, however, in the larger jurisdictions of public administration can expect that the old system will long prevail or prove workable. Employee relations in the public service based upon an assumption of individual, unorganized relations is becoming a thing of the past. The example set by fellow workers in private industry is having its effect among public employees. The sense of participation and recognition private employees are getting, particularly in the war production program, is not lost upon the millions who make up our public service. They have already shown that they want similar recognition. They will organize themselves into unions in order to obtain it. In general, therefore, the answer to the question whether we should approach our relationships with employees on the assumption of dealing with them as individuals, is "No." We should prepare to deal with problems of employee relations on the basis of union-management relations. We should assume there will be a stronger and more far-reaching union movement in the public service.

This question and its answer lead logically to other questions: Why do employees organize? What are they after?

If we are to answer this question by an examination of the demands and requests of employee unions, we find that employees organize in order to obtain better wages, better working conditions, and greater security of employment. However, if we look more closely into the records of employee union negotiations with public employers, we find that behind these specific demands and objectives is an underlying aspiration for recognition and a voice at the conference table with management in matters concerning the responsibilities and welfare of employees. Public employees, like private employees, are human beings and American citizens. They believe in the democracy of which they

are a part. The place of unionism in a democracy has been established by law in private employment. Public employees are coming to believe they should have a parallel status.

Most public managers are seeking a more efficient and cost-minded service. They are attempting to obtain the best employees they can find and train. They are striving to maintain a service characterized by the highest morale and esprit de corps of which employees and managers are capable.

When we obtain some idea as to why employees organize and against that match the objective public managers are seeking to attain, I think we can discover a working basis—a common ground between the aspirations of employee organizations and the managers of the public service. The question then follows: How can public agencies best discharge their responsibilities as employers and, at the same time, capitalize upon the aspirations and normal desires of employees to take their appropriate place across the conference table from management?

In the first attempts to meet employee organizations halfway, managers are usually confronted with a flood of individual and group grievances, real or imaginary: the accumulation of actual or supposed instances of unfairness, arbitrary actions, and lack of concern for the interests of employees. Until management demonstrates its willingness to get to the bottom of these problems, employee organizations cannot be expected to adjust their objectives to a level beyond the mere solution and settlement of grievances. But it is extremely important that this be done first.

Once the debris of past and present grievances is carefully cleaned away and agreement is reached on proper procedures by which grievances will be settled, the avenue is open for a more substantial and lasting relationship between employees and managers. But at once other questions begin to arise. How can managers know whether employees really mean business and are ready to accept responsibility beyond that of representing employees in the settlement of their grievances? What assurance is there that employees are prepared to deal seriously and conscientiously with the problems managers must face? Most managers will have to find the answer to this question by trying it out. An element of faith in the ultimate good sense of employees is absolutely essential if relationships with them are to produce constructive results. Employees and their organizations will make mistakes, just as managers make mistakes. Employees are sometimes hasty and unreasonable in their demands and impatient of results, just as managers are.

Management may also face the question: Does the particular union which presents itself, requesting recognition or a signed agreement,

really represent the majority of employees? There is only one way to find the answer to this question. Ask employees. If there is honest question or contest on this point, a fair secret election will settle it. If the union is not prepared to meet this test, something short of collective bargaining or exclusive recognition of the union as a bargaining agent is the only wise course. Unions that do not represent a majority of the employees in the unit they claim to represent cannot, as a practical matter, accept responsibility in a collective bargaining relationship. They may serve as excellent channels of communication, discussion, and exchange of advice between management and employees, but when the going gets tough and the decisions must be hardheaded and based upon facts known to both sides, a minority union finds itself in an impossible position. It cannot reach or hold the support of the majority of employees whose acceptance of the decisions is essential to their workability.

Labor Relations in TVA—A Specific Case

It may be helpful to conclude this discussion by describing how one agency of the federal government, the Tennessee Valley Authority, is finding answers to some of these questions in its own experience—answers that both labor and management in the TVA find workable and conducive to mutual respect and efficiency.

Labor and management have been working hard in the Tennessee Valley for the past nine and a half years trying to establish relationships and agreements mutually acceptable to both parties and in accord with the paramount public purpose the Authority was established to serve. More than seven years ago a statement of policy was promulgated by the TVA's Board of Directors after exhaustive consultation with employee unions, including some fifteen unions in the metal and building trades affiliated with the A. F. of L. This statement of policy laid the basis for collective bargaining and union-management cooperation in the TVA. Today, as the Authority assumes increasing responsibilities in war production, the wisdom of this policy has been doubly confirmed.

Two years ago this original statement of labor policy was further defined by an agreement signed by the Authority and the officials of fifteen unions in the metal and building trades.

This labor agreement covers the whole gamut of problems which normally arise in a collective bargaining situation.

First, however, I must tell you something about the TVA—what it is and what it does. You will then be able to evaluate the significance of labor policies prevailing in this case. To many people it is perhaps best known as a power agency of the federal government. It is important to realize that it is much more than that. But in the field of

power generation and distribution it is now the second or third largest among all electric producers in the country. It owns and operates more than 5,500 miles of transmission lines in a network serving in seven states and interconnected with all of the large neighboring systems in the southeast. It serves 129 municipal and rural electric co-operatives and contractors with wholesale power, who in turn serve some 520,000 customers. The Authority serves directly a number of large industrial loads now heavily engaged in war production, notably two large aluminum industries and a number of electrochemical plants, munitions plants, and arsenal establishments. In the year which closed last June 30, 1942, the Authority generated and sold about six billion kwh for which it received gross revenues of more than $25,000,000. After depreciation, payments in lieu of taxes, and all other expenses, there is a surplus of approximately $4,280,000.

But as I said, TVA is more than just a power agency. It was created by Congress in 1933 as a regional agency, in the form of a government corporation headed by a Board of Directors appointed by the President and confirmed by the Senate. It is charged with responsibility for flood control and the development of navigation and power over the entire system of the Tennessee River. It was directed to use the historic Muscle Shoals chemical plants built during World War I for experimental manufacture of cheaper and better fertilizers, and to distribute and test them under practical farming conditions. In addition, it was instructed to concern itself with the development and conservation of the great resources of the Tennessee Valley as an integrated whole to improve the general welfare of the area.

In the nine and a half years since 1933 the Authority has constructed ten large dams and a large steam plant, all of them by force account, and now has six more dams under way on high priority schedules. The TVA has built and is operating a large munitions plant. It has built and is managing hundreds of defense housing units. It is producing one of the essential ingredients used in the manufacture of synthetic rubber. It has produced and distributed for purposes of farm test demonstrations and soil-conserving uses more than 400,000 tons of concentrated phosphatic fertilizer which meets the test of cheaper cost to the farmer. Thousands of tons of this product have gone to Great Britain to aid in meeting her expanding food production requirements. Its system of dams, even before completion, reduced flood damage on the lower Ohio and Mississippi Rivers. A nine-foot waterway channel —some 650 miles long when completed, from Paducah, Kentucky, to Knoxville, Tennessee—is already serving to alleviate the critical problem of the transportation of coal, petroleum, and other products essential to war production.

In this far-flung program the Authority now has more than 40,000 employees, of whom about two-thirds are engaged in construction and industrial projects.

In creating the Authority, Congress set it up as a government corporation and gave it the flexibility of a private enterprise. To that end it was granted complete freedom from the federal civil service laws and safeguarded by its statute from political patronage or influence in the appointment and promotion of its employees. It was instructed to establish its own merit system suited to the rigorous requirements of its unusual responsibilities as a regional planning and operating agency. It was instructed to pay prevailing wages to trades and labor employees with due regard for rates established with private employers through collective bargaining. Under this statutory charter the Authority was able to face its managerial problems with a reasonable choice of alternatives on questions of labor policy.

The Authority faced this choice against the background of facts and theories as they were in 1933. Collective bargaining was yet to be recognized by federal statute even for private enterprise. Company dominated unions and the paternalism of employee welfare programs were viewed by many as respectable and effective alternatives. For federal agencies the civil service system was assumed by many to make unions unnecessary or useless.

Much has happened since that time. The scope and character of the public service has changed in unprecedented fashion. At the same time collective bargaining for private industry has become the law of the land.

Let me describe to you how it is that an agency of the federal government has found it possible and desirable to enter into a written agreement with bona fide organizations of employees. In this way it will become apparent how the Authority and its employees answered affirmatively the questions asked on every hand: Is collective bargaining possible? Is it legal in public employment? Can government agencies sign labor agreements with their employees?

The Authority could have elected to hold the problem of labor relations at arm's length by deciding to build dams by contract instead of by force account. The TVA Board decided for construction by force account, a decision which has since prevailed on all major construction projects of the Authority. By this decision the Authority made it clear that it was ready to assume full and direct responsibilities as a government employer.

As construction projects were added from one end of the Tennessee River to the other, the full significance of this decision to employ force account methods became apparent. Labor and management developed a

general set of standards of working conditions, rates of pay, apprentice training programs, and working rules applicable in all essential particulars to TVA work wherever it was carried on. The influence of this fact upon the general area and its localities has been one of the most significant by-products of the Authority's program in the field of labor relations. Areas and localities in which organized labor had previously had little opportunity to demonstrate the efficiencies of fair labor standards and practices were able to see a working model at firsthand. The formula of low costs, fair wages, high standards of safety, efficiency, and speed of accomplishment has become synonymous with TVA, even among its severest critics.

Having decided to be a direct employer, the Authority very early recognized the need for a statement of policy which would govern its relationships with employees.

Once it became clear that a statement of labor policy was desirable, a fundamental question quickly emerged. What was to be the attitude of the Authority toward the right of employees to organize, to make affiliations of their own choosing, to seek the assistance of outside representatives, and to determine the objectives of their organizations?

As those of us working on this problem saw it, these questions had to have a clear and final "yes" or "no" answer. Otherwise we would spend all our energies in guarding against possibilities that might never arise. And labor would be forced to turn its whole strength to the fight for existence. We knew that unless we were wholehearted in our answers to these questions, we would never reach the productive stage of collective bargaining and co-operation with labor.

The first of these assumptions holds that employees not only have a stake in the enterprise in which they work but that they also have a contribution of knowledge—the "know how"—that spells the difference between mediocre and superior efficiency and morale. If this assumption cannot be accepted, employees, singly or in organizations, either will not make a responsible contribution or, lacking the machinery through which to make it, will tackle the job to be done in half-hearted fashion and with low morale and mediocre efficiency. Positive acceptance of this assumption, on the other hand, and provision for adequate machinery through which the contribution of employees can be encouraged and received are at once evidence of good faith on the part of management. This, we believed, was the key to creative morale.

A second assumption relates to the distinction between government and private employment. In recognizing the right to organize, for example, should the public employer exact any conditions as to the methods and objectives of the organizations employees may join? Here again, we took it for granted that government employees can be counted

upon as responsible, law-abiding citizens as much interested in preserving the integrity of their government as the average citizen of our democracy. The wise discretion and good judgment of employees was to be assumed. Exceptions or abuses could be dealt with as they arose. We would take our chances with possible human failures.

A third assumption concerned the right of employees to designate representatives who were not employees of the Authority and to affiliate as they saw fit. This right is now the law of the land for private establishments. Was it sound for a public agency? It is probable that many employers and many administrators would be less wary about unionism if they could preclude recognition of outside representatives. The history of company unionism is evidence to this point. However, having decided upon a course of noninterference with employees in their own affairs, there was to be no reservation; if employees chose to be represented through nonemployees, that was to be their business. The Authority would deal with them in complete good faith.

Beneath this decision was the assumption that good working relationships between the unions and management would depend upon mutual confidence and good faith demonstrated by the two groups. If management could not trust mature employees to select capable and responsible representatives and leaders, it would be hopeless to attempt to establish a relationship of value. On the positive side we recognized that unaffiliated employee groups in their direct contact with management tend to overemphasize the little irritations that are inherent in human relationships. Very frequently these self-contained groups jeopardize broader objectives by their insistence upon making big issues out of little ones. The outside representative frequently understands broader objectives because the issues he is confronted with transcend the minor irritations that develop from day to day. We were prepared to leave the question of representation and outside affiliation entirely in the hands of employees.

We then turned to the question: What was to be the subject matter of union-management relationships in the Authority? Rates of pay, hours of work, leave privileges, methods and standards of selection of employees, and general employment conditions are the real live issues dealt with in collective bargaining in private industry. Would this be appropriate in a public agency? And if so, to what extent could an arm of the sovereign state financed by public funds allow employees to participate in the formulation of decisions affecting their own status?

Ordinarily in the federal service these matters are determined largely by Congress through the civil service laws and other federal statutes. But the Authority had been granted a substantial degree of flexibility within which there could be found a number of major problems sus-

ceptible of solution through collective bargaining—wages, hours of work, working rules, and the like. Even without this flexibility there were the problems of methods, quality, integrity, and results of administration within the limits set by Congress: departmental rules and regulations, grievances, training opportunities, improvement of efficiency and safety of employees, to mention only a few upon which a program of union-management co-operation could be built.

These tentative conclusions behind us, there followed a period of intensive discussion and negotiation between management and representatives of bona fide employee unions at all major work sites. Out of this process there emerged in August, 1935, a statement of policy approved and promulgated by the Board of Directors of the Authority.

In brief summary, the Employee Relationship Policy recognizes the right of employees to organize, affiliate as they choose, designate representatives, and bargain collectively with the management of the Authority. It establishes the machinery for the disposition of grievances and for the development of co-operative relationships with labor and employee organizations; sets up principles relating to employment standards, hours of work, compensation, training and placement; sets the minimum age for employment; rules out nepotism; makes provision for the safety and health of employees; and gives a voice to bona fide organizations of employees in the formulation of policies, rules, and regulations governing the conditions of employment and work.

I would have you note that the adoption of this statement of policy was not equivalent to a signed agreement with employees. It did, however, give the Authority's answer to many of the assertions heard on every hand these days: that unions have no rightful place in public employment; that organizations of public employees should not affiliate with outside organizations; that government managers and administrators should deal only with employees directly and not with representatives who are not employees of the government; that government employees should do their bargaining through political and and legislative channels, and hence there is no need for collective bargaining with managers and administrators; that collective bargaining ties the hands of management and reduces discretion of administrators; that scientific techniques of personnel administration and the guarantees of civil service laws make unions in the government service unnecessary; that collective bargaining will encourage strikes and interruptions in governmental services; and a score of other arguments thrown in for good measure every time the status of labor in the public service is debated. The Authority examined every one of these assertions, theories, facts, and arguments and concluded that so far as its own statutory and managerial circumstances were concerned, they could not possibly out-

weigh the clear advantages of doing business with its employees in a normal and natural way—through recognition of majority representatives, inviting them to the conference table and working out mutually acceptable understandings as to how the job was to be done.

Labor relations in the TVA between 1935 and 1940 moved into a program of active and two-way co-operation under this policy. But it was soon apparent that something was missing. Labor, through the Tennessee Valley Trades and Labor Council—a body created by the various unions in the Valley with which the Authority has dealings—proposed that the Employee Relationship Policy of the Board be supplemented by a signed agreement to be negotiated and formally executed by employees through their organizations and by the Authority.

Negotiations went forward and proceeded to a mutually satisfactory conclusion. On August 6, 1940, the Authority and fifteen unions representing TVA employees in the trades and labor services of the Authority pledged their agreement to principles and devices of collective bargaining and co-operation in a great public enterprise.

On Labor Day two years ago, the President dedicated Chickamauga Dam. To the workers of the TVA he spoke as follows:

> In all these seven years, in heat and in cold, men have drilled and blasted through solid rock, they have poured ton after ton of concrete and they have moved mountains of earth. They have worked with the strength of their hands, and they have operated complicated machinery with every modern skill. Never once, in this the biggest consolidated construction job ever undertaken directly by the national government, has there been a substantial interruption to the continuance of your labors. This Dam, all the dams built in this short space of years, stands as a monument to a productive partnership between management and labor, between citizens of all kinds working together in the public weal. Collective bargaining and efficiency have proceeded hand in hand. It is noteworthy that the splendid new agreement between organized labor and the Tennessee Valley Authority begins with the words, "The public interest in an undertaking such as the TVA always being paramount. . . ."

That was two years ago. The paramount public interest continues and multiplies with every succeeding day and month. Labor and management in the TVA have kept pace in acceptance of their expanding responsibilities. Collective bargaining and union-management co-operation in the TVA as a system of governmental efficiency is meeting the test of the national emergency. The public may see for itself the results of this "productive partnership between management and labor" and judge the wisdom of the principles upon which it rests.

I would not leave you with the impression that this record of TVA effort has been made without headaches and minor human failures. We have had our troubles—some of them serious. But the system and methods of conference room negotiation, adjustment, and decision are standing the tests of speed and precision in building and producing for war. These millions of man-hours of skilled effort and of realistic and intelligent devotion to economic and political freedom are not only

producing to help win the war; they are an investment in a creative security based upon technological miracles that will serve beyond our time.

The labor practices and policies that have been developed in the TVA may not be applicable throughout the government—federal, state, and local. Generalizations in a problem so fraught with hairsplit legal distinctions and variations of statute are difficult at best.

But one generalization seems justified by experience on record: if we, as public managers, foster policies and practices designed to frustrate normal employee aspirations, we will, without question, provoke and promote the negative and protective features and abuses of unionism. If, on the other hand, we have the good sense to remember that public employees are human beings no different from employees of private enterprise and if we have the vision and patience to meet their aspirations halfway, great benefit can redound to the public service and to the taxpaying public.

DISCUSSION

ABRAM L. HARRIS: Until a decade ago, trade union activity from the standpoint of legal and public sanction involved the problem of extending to voluntary associations those civil rights of the individual whereby the members of such associations could improve their well-being through group action. Today, however, trade union activity raises entirely different issues of social policy. These arise from the extension of group authority or control, under governmental and public approval, over large segments of industry, if not over the whole economy. The issues involve not alone the question of what form of economic organization is to be desired, or what the essential functions of government should be in a democratic order, but that of how individual and minority rights are to be preserved in a scheme of things progressively subjected to group domination. These questions, in my opinion, are the focal points of the subject matter of the papers under discussion. The questions are not primarily those of theoretical economics. They are essentially political in that they relate to the problem of the use of power and coercion in organized society.

Professor McCabe's paper is mainly a discussion of the technical feasibility of industry-wide agreements. But his paper also raises the issue of group power and responsibility in economic life. Industry-wide agreements, he states, are based upon "unitary bargaining for wages" over a wide competitive area; that is to say, unitary control over wage rates in given industries by national associations of employers and of employees. I agree with him that given the desire among employers and trade unions, the technical difficulties of establishing these agreements are not insurmountable[1] though in certain industries like lumber the obstacles are rather formidable. But on the whole, it is primarily a question of the willingness of employers and organized labor to effect them. I think Professor McCabe is correct in assuming that as a general proposition organized labor aims to make collective-bargaining coextensive with the industry. This is certainly true of the C.I.O. if I interpret correctly the pronouncements of that organization and its leaders. The same conclusion with some modification applies to the A. F. of L. The chief obstacle on the side of labor is the present division between the dominant federations. On the employer side, resistance is to be encountered in the disposition to regard the indiviual firm as the appropriate unit in dealing with labor relations. And, in a sense, Professor McCabe's argument is directed to the employers. What he says is this: Industry-wide collective bargaining tends toward geographic standardization of basic wage rates and, thus, toward the removal of advantages arising from differentials in labor costs. The tendency is supported by federal laws, such as the Walsh-Healey and Fair Labor Standard Acts, and also by the national labor policy which encourages trade union efforts toward industry-wide collective bargaining. Under these circumstances employers have the alternative of dealing as separate individuals with strong national

[1] Paul Norgren comes to a different conclusion in discussing the feasibility of establishing in this country a system of national agreement on the Swedish model. See his *The Swedish Collective Bargaining System* (Cambridge, 1941), Chapter XVII.

labor organizations, or of combining themselves in national associations for the purpose. Interest would impel them to combine, it seems.

In sections of the labor movement, hope appears to be entertained that government under the present administration will act directly to influence the establishment of industry-wide bargaining. The projected industry-council plan of the C.I.O. presupposes industry-wide agreements and proposes that the councils of employer and employees be set up by executive order of the President.[2] The feeling that this administration favors a national system of bilateral bargaining is, of course, supported by the ill-fated NRA and by the appointment by the President of a committee to study collective bargaining in Great Britain and Sweden.[3] But there is little to indicate that the administration is prepared to use its powers either to effect the C.I.O.'s plan or to establish the system of national agreements found abroad. At least for the present, the establishment of such a system of bargaining in this country will depend mainly upon the inclinations of employers and trade union leaders in a political atmosphere strongly conducive to its development. There are indications that some employers in manufacturing industries are beginning to favor bilateral industry-wide bargaining. However, in the railroad industry, which Professor McCabe excluded from his analysis, a system of national agreements would encounter stiff employer resistance. It is the contention of railroad management that experience with these agreements during federal operation in 1918-19 has shown them to be uneconomic.[4] The contention is not to be lightly dismissed, as labor leaders are inclined to do, on the ground that the real reason for the opposition is management's unwillingness to "share power." In an early discussion of wage standardization effected by "concerted movements," Professor Cunningham concluded that such standardization had "not eliminated discrimination but [had] actually created new inequalities."[5]

The problem of the effect of industry-wide agreements on prices and employment can be noted only in most general terms. If past experience and current practices teach us anything, it is that the bargaining strategy of national combinations of employers and of employees would probably not stop with wage-fixing but would soon move toward price control and, eventually, to allocation of output. Industry-wide agreements would be expected to take place first in the heavy goods industries in which monopolistic restraints have not been uncommon and in which the power of organized labor has been vastly extended. In these industries, a joint control over wages and prices would be especially likely where profits were threatened and price maintenance was considered necessary as a result of the union's attempt to absorb the "efficiency gains" of the industries in the form of wage increases.[6] Such control would intensify the

[2] See Clinton S. Golden and Harold J. Ruttenberg, *The Dynamics of Industrial Democracy* (New York and London, 1942), Chapter XI and Appendix.

[3] See Report of the President's Committee on Collective Bargaining in Great Britain and Sweden.

[4] See *Wages and Labor Relations in the Railroad Industry, 1900-1941*, issued by the Executive Committee of the Bureau of Information of the Eastern Railways.

[5] W. J. Cunningham, "Standardizing the Wages of Railroad Trainmen," *Quarterly Journal of Economics*, Vol. 25, p. 156.

[6] On union wage policy and "efficiency gains," see Edwin G. Nourse, "Wages as Cost and as Market" (Chapter IX of the forthcoming book *Price-Making in a Democracy*,

problem of technological displacement adversely affecting the volume of employment and the level of the national income.

Bilateral industry-wide bargaining paralleled by the control of agricultural prices and incomes by a national farm bloc would bring us to that state of affairs described by Professor Commons as "collective democracy." In this scheme, market competition is supplanted by bargaining between national associations of farmers, workers, and businessmen under working rules subject to legislative sanction and judicial review. Dr. Reynolds and Professor McCabe, also—if I interpret the latter correctly—think that we are headed in this direction. The drift may not be viewed with equanimity by persons of a late nineteenth century libertarian or individualist persuasion—assuming, of course, that such creatures are still permitted to be at large. Whether we like it or not, the tendency toward collective democracy is more or less inevitable; at least that is the impression I got from the papers of Professor McCabe and Dr. Reynolds.

While I agree with Dr. Reynolds that bargaining between organized blocs is a fact to be considered in any appraisal of economic events, I am less inclined than he apparently is to dismiss competition as a desirable goal of social policy and more inclined to consider ways of preserving it. Dr. Reynolds frankly recognizes that the more bargaining by national blocs comes to supplant market forces the more economic life will involve a struggle between these groups for strategic advantage. And his paper considers the conditions under which group conflict can be reduced to a minimum. The main conditions, he points out, are full employment, or something closely approaching it, and a high level of national income. Under these conditions group conflict would probably be less than under less favorable circumstances. But it does not follow that conflict would not be acute, since the favorable conditions might simply lead to a scramble for a larger slice of the pie. Thus, the regulatory powers of government would have to be expanded to enforce common interests of the monopolistic groups. Furthermore, government would be required to devise appropriate fiscal and tax policies for keeping employment and national income at a high level. Such policies would involve the increase of public expenditures and would thus tend to make investment more of a governmental than a private affair. In this connection we would be well-advised to reflect upon Professor Henry Simons' remark that "at some level the choice between governmental and private investment is the choice between ways of life, individualist and authoritarian."[7] Dr. Reynolds does not appear to have considered this choice. If he did he probably dismissed it as unreal.

Now, we may be headed in the direction of group bargaining on a national scale; but we still have some distance to go before we shall have reached it. Whether we will travel the distance more or less quickly or whether, indeed, we will continue to go in that direction will depend on the social policies we adopt with respect not alone to combinations of capital but also to trade union activity. Thus without departing greatly from reality, we can,

Pamphlet No. 44, the Brookings Institution), pp. 18-32. The topic is discussed from the union standpoint by Golden and Ruttenberg, *op. cit.*

[7] *Journal of Political Economy*, April, 1942, p. 172.

I think, proceed to formulate policies on the basis of conditions somewhat different from those premised in the papers of Dr. Reynolds and Professor McCabe. Under these conditions collective bargaining would, of course, be permissible but competition, except in the case of regulated monopolies, would be enforced. We might as well accept it as a fact that federal laws supporting collective bargaining have come to stay. But the question is whether the government having conferred broad powers on trade unions should not now proceed to define the limits or areas in which they can be legitimately exercised.

Dr. Gregory's paper discusses this question of legal definition of trade union powers. His position is that under existing federal law and court decisions any union activity, however coercive or arbitrary, when directed toward contol of labor markets is perfectly acceptable. A similar statement by Mr. Corwin Edwards at the last meeting of this Association provoked lengthy discussion as to whether labor now enjoys blanket immunity under the antitrust laws. I must confess that after reading the discussion and the decisions in the Apex and Hutcheson cases, I do not know whether organized labor does or does not enjoy such immunity. Certainly, the whole controversy is indicative of the uncertainty and vagueness surrounding labor's position under the antitrust laws. Thus I agree with Dr. Gregory that only legislative definition by way of amendment of the Sherman Act can remove the uncertainty and confusion. But the great problem, as he notes, is how to define and limit the powers of trade unions by legislative enactment without at the same time destroying them as a socially useful instrument.

The question of the limits of collective bargaining when the government itself is the employer has always been a crucial issue. It is to be regretted that Mr. Clapp did not find it necessary to address himself to this issue. While giving an excellent summary of the admirable labor policy of the Tennessee Valley Authority, he dismisses as red herrings the questions of the union shop and of the right to strike in the public service. These are real issues since the strike is the trade union's chief weapon and the union shop, encouraged by federal law and labor policy, is virtually synonymous with collective bargaining. Of course, it would be foolish to think that the mere assertion of the state's sovereignty can or does in fact prevent strikes of public employees. But in our form of society we are disposed by habit and tradition to regard the state as the final arbiter of conflict and the repository of coercive powers. It seems inconsistent with this tradition to dismiss as a matter of little consequence the use of the strike by public employees or, in other words, the use of force by a group of citizens against the government. Although federal statutes make it a misdemeanor for members of the police and fire-fighting forces of the District to strike, the use of the strike by federal employees is not forbidden by law. However, the government's disapproval of the strike as an appropriate weapon for its employees is implied in the Lloyd-La Follette Act of 1912 which as far as the author knows was never repealed.

As the economic functions of government and its subdivisions continue to expand, the problem of trade union activity in the public service will become

more serious. In carrying out these functions, goverment will more and more delegate authority to the public corporation such as the Tennessee Valley Authority. Unless prohibited by law, which is very unlikely, the public corporation can of course confer with trade unions on wages and working conditions. But the limits in which it will be able to deal with unions will depend upon the powers given it by the state—whether, for example, it is required to bring its personnel under civil service law. Even where the public corporation has power to make agreements with trade unions, it may although operating outside the civil service prescribe the conditions under which it will negotiate with them. The Tennessee Valley Authority affords a good example of this type of labor policy of a public corporation. The Authority has an agreement with the Tennessee Valley Trades and Labor Council. But it clearly states in its "Employer Relationship Policy" that "it is an agency of the sovereign government of the United States" and that it thus "differs from a private employer." Though Congress has refused to place the Authority's personnel under civil service, it has prescribed that the Authority pay not less than the prevailing rates of pay for work of a similar nature in the vicinity. This provision was written into the agreement between the Authority and the trade unions. In determining the prevailing rates the Authority agrees to give due regard to "those rates secured though collective bargaining by representatives of employers and employees." Disputes over the prevailing rates are referable to the Secretary of Labor whose decision is final. Finally, recognizing the right of employees to organize and bargain through representatives of their own choosing, the Authority states that neither membership nor nonmembership in a trade union is a condition of employment, transfer, or promotion. These provisions clearly limit the collective bargaining process as it functions in private industry.

Finally, attention should be called to the effect of the spread of trade union activity on minority interests and individual rights. The problem of minority interests has arisen before the NLRB in the Pacific Coast Shipping and other cases. In these cases the Board's policy of favoring the broad unit for collective bargaining purposes tended to disestablish unions whose members were a minority in the industry taken as a whole but a majority in a single plant, port, and so forth. The policy of the Board as now constituted has been described as one in which the right of local self-determination is accepted, under certain conditions, pending more extensive organization on a broad basis.[8] This modification of the earlier position only meets the minority issue when it arises in connection with claims of rival unions. It does not meet the issue when caused by dissatisfaction within the union. An example of this type of conflict is to be found in the current strike of anthracite miners against a levy assessed by a convention in which these miners said they were greatly outnumbered by bituminous miners.[9] Conflicts of this kind will become more frequent, since the Board supports the union principle of obligatory membership in the appropriate bargaining unit and thus encourages the tendency of the

[8] Emily Brown, "The Employer Unit for Collective Bargaining in National Labor Relations Decisions," *Journal of Political Economy*, June, 1942.

[9] See New York *Times*, January 11, 1943.

union shop and collective bargaining to become synonymous. The investigation by the Department of Justice shows that the position of individuals and minorities is truly anomalous under the Railway Labor Act.[10]

At the last meeting of this Assocation, Professor McCabe referred to the necessity of protecting the rights of individual union members as a grave public responsibility. He said: "The union shop as a normal feature of collective bargaining in American industry makes it necessary that we enlarge and sharpen our judicial facilities for enabling individual union members to secure their rights within the organization. What this amounts to is judicial review of union procedure to insure that the complainant is not deprived of due process."[11] Such a review is further justified when one considers the full implications of majority rule as construed by some labor leaders.[12] These leaders contend that the application of majority rule, as a principle of labor representation, is necessarily based upon coercion but that such coercion is justified by the principles of political democracy. This sort of reasoning involves nothing less than the idealization of the power of the "51" per cent. And, the application in practice of such reasoning could spell the doom of trade unions which, when compared with the total working population or with the whole population, are themselves simply organized minorities. According to the tenets of political democracy, as I understand them, the justification of majority rule in politics is the sheer necessity of finding a practical means of expressing the will of the political community. The realization that majority rule possesses no intrinsic virtue and is but a political expedient has resulted in a whole code of civil rights to protect individual and minority interests. It would appear that a similar code of rights must now be devised for the protection of minorities and individuals in industry.

MARION H. HEDGES: These authoritative papers and this discussion fix forcibly in the minds of all of us the scope and widespread significance of the so-called "labor problem." Mr. McCabe approaches the labor problem from a technical point of view, Mr. Reynolds from the point of view of the political scientist, Mr. Gregory as a lawyer, and Mr. Clapp as business manager of a great government agency. All of these papers are of undoubted value, it is needless to say, and it appears that any labor executive who arises to comment may appear to be a mere David before a Goliath. Partially because of my lack of attainment in so many important fields, I do not intend to comment on these papers in detail or individually. I do think that they all illustrate, with the possible exception of Mr. Clapp's, our lack of perspective and our traditional bias. The common topic which might be put over the head of any of these papers might be, "How can labor be controlled?" Whereas the real question, it seems to me, should be what conditions can be created, and what standards should be set up, that will enable labor to control itself. What

[10] The Attorney General's Committee on Administrative Procedure, Department of Justice, Monograph No. 17, pp. 16-22.

[11] *American Economic Review*, Supplement, March, 1942.

[12] See Golden and Ruttenberg, *op. cit.*, and, also, Harold J. Ruttenberg, "The Strategy of Industrial Peace," *Harvard Business Review* (17), Autumn-Spring, 1938-39, p. 169-170.

chances are there for self-government by labor in the economic, industrial, and cultural environment in the United States?

Let me say at the outset that I find myself pretty much in agreement with the statement made by Mr. Reynolds in his paper on industrial wage policies and on price parity. Mr. McCabe, however ably he argues, appears to me to be putting the cart before the horse. Before we can have industry-wide agreements, certain things must take place in industry which have not yet taken place. These things pretty generally are organization of employers in the industry, acceptance of collective bargaining on a scientific basis, the establishment of labor-management committees in that industry, and the joint responsibility of labor and management for bringing that industry into harmony with a national economy. When these things have taken place, then it makes little difference whether you have a uniform basic wage or a diversified wage.

You may be assured that I got the greatest kick out of Mr. Gregory's paper. Mr. Gregory, it appears to me, hews more closely to the line of our general topic of how can labor be controlled. I got a great reaction out of Mr. Gregory's amusement at the United States Supreme Court. Up to about 1932 all lawyers spoke with bated breath about the Court, and it is refreshing to find a lawyer now placing good-natured strictures upon the deliberations of this all-important body. This mood of Mr. Gregory in itself records tremendous social changes that have taken place in the last decade. I think Mr. Gregory fails to show that the carefully and deliberately planned decisions of the Court over a period of thirty years practically nullified collective bargaining prior to 1932, and I think Mr. Gregory failed to state the case; namely, that antitrust laws certainly had no adverse effect upon the arrival of powerful aggregates of capital and of monopoly. Prior to 1932 we heard no lawyer raise his voice demanding that the antitrust laws should be enforced, and it is a curious thing that what we hear now is for these same laws to be enforced against labor. Most of the cases of Mr. Thurman Arnold have been against labor unions, not against monopolies and quasi monopolies like the Bell Telephone trust, the United States Steel, the anthracite coal monopoly, the aluminum monopoly, and such other pleasing arrangements. Neither does Mr. Gregory offer any criticism of Mr. Thurman Arnold on extralegal techniques employed to secure control of labor unions. Labor might agree with Mr. Arnold's goal and resist implacably the methods Mr. Arnold is attempting to use.

Neither do I think Mr. Gregory gives enough weight to the possible counter-question as to whether monopoly may not be a good thing for a country of 133,000,000 people spread over a continent. Personally, I think if Mr. Arnold succeeded in breaking up the vast organization of industry into bits and pieces, America would starve to death. A big country means very big business.

To bring my comment into a more positive area, may I indicate a point of view. After traveling a rather rocky road through the field of labor relations, I have reached the conclusion that what labor wants more than anything else is to cease being thought of as a problem and be thought of as citizens

on a par with any other group in the community. Labor would like to see the scales of justice shaded in another direction. As a labor historian, it is my impression that most of the faults that are seen in the labor movement, and they are considerable I admit, are due to the fact that labor has been forced to fight defensive action for a half-century for its very life. All the legalization that has taken place during the last decade has not much changed the picture as the present hour of Congress will indicate. And so long as labor is treated as a problem and not as citizens, we may expect the faults to continue because the pressure produces them, not the total depravity of working people itself. What is needed is what Frederick W. Taylor, the author of scientific management, asked for more than a generation ago. Mr. Taylor said:

> Now, in its essence, scientific management involves a complete mental revolution on the part of the workingman engaged in any particular establishment or industry—a complete mental revolution on the part of these men as to their duties toward their work, toward their fellow men, and toward their employers. And it involves the equally complete mental revolution on the part of those on the management's side—the foreman, the superintendent, the owner of the business, the board of directors—a complete mental revolution on their part as to their duties toward their fellow workers in the management, toward their workmen, and toward all of their daily problems. And without this complete mental revolution on both sides scientific management does not exist.

One of the places in the United States where this revolutionary thinking on the control of labor is well on its way is at the TVA, which setup Mr. Clapp has adequately and sympathetically described. One of the places where it is not taking place in parallel is in city governments. I am of the opinion it is wrong to view a city as merely a civic unit carrying on conventional functions of a representative government. A modern city is also an agency carrying on big business under a mandate from the people. It operates water systems, gas systems, electric systems; it builds highways. It is in fact an organized method of getting the business of a community done. Moreover, it is unlikely that this great area of a city's activities will shrink; it will probably widen. If a city, therefore, undertakes to operate its business on a modern basis, it will have to meet head on the question of the proper, efficient, social, and democratic organization of its labor relations policies. What the cities have not done, the TVA has undertaken to do.

I have set down three guiding principles on the relationship of public agencies with organized labor:

1. No relationships with unions should be allowed to impair the sovereignty of the public agency. On the other hand, the public agency should not use its sovereignty to help destroy the union.

2. The choice that lies before cities—and for that matter the entire citizenship of the United States—is a choice between a totalitarian concept and a democratic concept. It is only by choosing collective bargaining that the democratic concept can be upheld.

3. Labor relations should be put on an affirmative basis wherein the collective energies of the working force can be used for constructive rather than destructive purposes.

For that matter, these three principles could be applied to business anywhere.

ARNOLD S. ZANDER: I must admit that I undoubtedly beamed with satisfaction and agreement when reading the paper prepared by Mr. Gordon R. Clapp. It would be helpful if all public officials and administrators could be induced to read Mr. Clapp's writings on this important subject. Especially, since Mr. Clapp concludes his paper with the warning that "generalizations in a problem so fraught with hairsplit legal distinctions . . . are difficult at best," it is important reading.

Mr. Clapp's specific references to TVA experience illustrate practices which are extending but which are still very exceptional. The attitude customarily found springs from what Mr. Clapp succinctly refers to as "theory already disproved in fact and practice" and "confused thinking."

Our federation has been chartering local unions at the rate of five or six per week. This has been going on for months. In the six years since we were chartered by the American Federation of Labor, we have averaged more than one hundred new local unions per year. This is an answer to those who "attempt to explain why public employees cannot organize themselves into unions, why they cannot affiliate with the organized labor movement, why they cannot bargain collectively with public managers, or why the government cannot recognize public employee unions or sign labor contracts with them."

Our unions are bargaining collectively with public officials. Some of our unions have been formally recognized and a goodly number of them have contracts with their employers. These are pioneering efforts, but they indicate a trend toward final solution of this problem. It is clear, however, that it will be a slow, painstaking, and patience-taxing process.

Mr. Clapp's discussion of the two points which have contributed to building "the bulwark of opposition to recognition of unions" is a distinct contribution to the writing on this subject. It seems every discussion of this matter turns at least for a time about the strike issue. We have had a little experience with strikes and a good deal of experience with the upsurge of resentment toward obdurate and unreasonable management representatives which could so easily result in strike action. Management's attitude is often based on Mr. Clapp's second point of contention offered by management that collective bargaining is not legal.

It has been most difficult at times to keep our local unions from going on strike. We have used every available influence and have stood against the use of the strike weapon even when it was plain that the difficulties arose because of lack of understanding on the part of management of the doctrine set forth so ably by Mr. Clapp. We know that our affiliated unions have not used the strike as they would have had they not been affiliated.

Mr. Clapp is entirely accurate in his statement that organized employees have "an underlying aspiration for recognition and a voice at the conference table in matters concerning the responsibilities and welfare of employees." The matter of recognition of their union looms large in the thinking of public employees just as it does with private employees. We have on occasion argued this point with our local unions, advancing the thought that as long as management dealt with them more formal recognition was unnecessary. Formal recognition is greatly desired. Great weight is attached to it.

Mr. Clapp's reference to assumptions made by TVA when faced with the employee-relations problem is most revealing. If other public employers could only realize that these assumptions are sound! Our experience shows conclusively that employees do have "a contribution of knowledge" and also that "government employees can be counted upon as responsible, law-abiding citizens as much interested in preserving the integrity of their government as the average citizen of our democracy." The Authority made further assumptions of a similar nature, all of which have proved sound.

I repeat the hope that many public officials may read Mr. Clapp's paper.

DEGREE AND CHARACTER OF THE WARTIME EXPANSION OF THE NATIONAL LABOR FORCE[1]

By Charles D. Stewart
United States Department of Labor

As a clue to manpower problems, the wartime administrators in 1917-18 did not have available, for whatever use they might have made of it, any comprehensive current employment or labor force data. No urgent demand had existed for such information prior to the war and no comprehensive series was initiated during the war. What is available now has been developed in the course of the last ten years in response to needs arising out of the great depression. While interest was shown in the twenties for current manufacturing employment data as a general measure of welfare and of fluctuations in economic activity, it was the crisis of the thirties which led to the preparation of monthly employment data—largely perhaps as some kind of indirect measure of unemployment. The inadequacies of the various unemployment estimates pointed to the necessity for current estimates of the labor force per se and brought a realization of its dynamic and sensitive character.

The relatively new *Monthly Report on the Labor Force*[2] provides a broad framework into which can be fitted the more detailed employment data by industrial components. Whatever the limitations of such total labor force, employment, and unemployment data, it does provide a current measure of the level of the labor force and broad components within it as well as some further refinements by age and sex. For nonagricultural industries, the more familiar employment estimates provide detailed data for administrative use.

The war has stimulated the monthly collection of employment data by sex for detailed industry groups and of information as to anticipated hires and peak requirements. Many gaps remain in manpower information particularly as to current data on characteristics of nonworkers and their availability for employment. More serious, perhaps, is the lack of systematic processing of data as to the industrial origin of inductees and the draft status of workers by industry and occupation.

Since June, 1940, the American labor force has undergone a process of stretching and twisting indicative of a flexibility beyond general expectations. By the end of 1942 considerably more than 6 million men were drawn into the armed services without any diminution in the

[1] The writer wishes to acknowledge the assistance of Leonard Eskin, of the Bureau of Labor Statistics.
[2] Bureau of the Census; formerly WPA.

civilian labor force. Nonworkers entered the labor force about as rapidly as inductees were withdrawn. Factory employment alone rose by 5 million and unemployment was reduced close to a minimum figure. Women replaced men in the civilian labor force, workers were upgraded and moved from job to job and from one industry to another, the gross number of shifts adding up to an incalculable figure.

So far the changes which have occurred in the size and composition of the American labor force have come about from what may be called

TABLE I. CHANGES IN LABOR FORCE AND EMPLOYMENT FOR SELECTED COMPONENTS, OCTOBER, 1940, 1941, AND 1942 (IN MILLIONS)

	October 1940	October 1941	October 1942	Changes from October, 1940, to October 1941	Changes from October, 1940, to October 1942
Total labor force	55.0	56.1	59.0	+1.1	+4.0
Armed forces	.6	2.0	5.0[1]	+1.4	+4.4
Civilian labor force	54.4	54.1	54.0	− .3	− .4
Unemployed	7.4	3.9	1.6	−3.5	−5.8
Employed	47.0	50.2	52.4	+3.2	+5.4
Agriculture	9.7	9.3	10.5	− .4	+ .8
Nonagriculture	37.3	40.9	41.9	+3.6	+4.6
Manufacturing	11.4	13.6	15.3	+2.2	+3.9
Mining	.9	1.0	.9	+ .1	.0
Construction[2]	1.8	2.2	2.0	+ .4	+ .2
Transportation and public utilities	3.1	3.4	3.5	+ .3	+ .4
Trade	6.7	7.1	6.7	+ .4	.0
Finance, service, and miscellaneous	4.1	4.3	4.3	+ .2	+ .2
Government[3]	4.2	4.5	5.7	+ .3	+1.5
Balancing item[4]	5.1	4.8	3.5	− .3	−1.6

SOURCES: Bureau of Labor Statistics and Bureau of the Census.
[1] Estimated on basis of public statements; actual figure not available.
[2] Contract construction and federal force-account construction employees.
[3] Includes federal, state, and local employment except force-account construction; federal includes civilian employees in Navy Yards and other publicly operated manufacturing establishments, excludes the armed forces.
[4] Residual (Census nonagricultural total minus Bureau of Labor Statistics total nonagricultural wage and salary workers). Residual includes proprietors, self-employed, and domestic servants but is not an accurate measure of the total.

normal labor market pressures induced by the war, or at least with a minimum of administrative action or direction. It may be assumed that the final phases of the process will be the hardest, and may prove to require more direct and active governmental control than up to the present for maximum efficiency in the utilization of the nation's labor force. The magnitude of the problem still ahead may be appraised by a review of the changes in the industrial pattern of employment and the composition of the labor force.

The early phases of the war in Europe and the first few months

of the American defense program had a large, but not extraordinary, effect upon employment in the United States. Employment on a seasonally adjusted basis increased by only 1.9 million in the fourteen months from August, 1939, to October, 1940, which, it may be argued, might readily have occurred in the absence of war. For purposes of analysis, and because of the character and the availability of the data, comparison of October, 1940, 1941, and 1942, will be found most convenient. Table I summarizes the major developments in broad outline.

Changing Industrial Patterns

In the first year of wartime expansion (October, 1940, to October, 1941) employment increased in all industrial components. Though the greatest increases were in heavy manufacturing and construction, which advanced 19 per cent and 22 per cent respectively, all the major nonagricultural groups showed substantial gains. In many instances the nonwar industries were stimulated to record peaks by the growing volume of consumer purchasing power.

Increases were naturally most pronounced in the major war industries—transportation equipment, machinery, iron and steel, nonferrous metals, chemicals, and petroleum and coal products—as shown in Table II. The number of wage earners in these industries in the first year rose by 1.3 million, or 35 per cent, as compared with an increase of 619,000, or 11 per cent, for all other manufacturing industries.

In the second year (October, 1941, to October, 1942) the pattern of changes was considerably altered. Manufacturing resumed expansion following a slowdown occasioned by the suddenness of conversion. The resulting curtailment of civilian production in many lines of nonwar production led to a reduction in the volume of civilian goods and eventually to a decline in the volume of trade employment by autumn 1942. The record level of consumers' income helped to maintain the volume of employment in the service industries in the second year at peak levels. Increasing efficiency in the transportation industries, combined with a lengthening of hours, contributed to a slowing down in the rate of increase in employment in those industries. Construction, while maintaining a higher average than in the previous year, began to taper off by October, 1942. As contrasted with only a moderate increase in government (civilian) employment in the previous year, public employment rose by 1.5 million, or about one-third following Pearl Harbor.

While the consumers goods manufacturing industries curtailed operation, war industries continued to expand. Transportation equipment (especially aircraft and shipbuilding) and chemicals (particularly smokeless powder, high explosives, and shell, bomb, and bagloading) expanded at a greatly accelerated pace. By October, 1942, factory

employment in transportation equipment industries increased to a level five times above October, 1940. In the metal-using, chemical, and petroleum industries as a group, the increase amounted to 2.9 million wage earners, or about 75 per cent. In October, 1940, these industries employed 42 per cent of the nation's factory workers. By October, 1941, they accounted for 47 per cent, and by October, 1942, 53 per cent.

The impact of the war upon agriculture reversed the decline in farm employment which commenced in 1935. Despite the migration of large

TABLE II. ESTIMATED NUMBER OF WAGE EARNERS IN MANUFACTURING INDUSTRY GROUPS, OCTOBER 1940, 1941, AND 1942 (IN THOUSANDS)

Industry Group	October 1940	October 1941	October 1942	% Change from October, 1940, to	
				October 1941	October 1942
All manufacturing[1]	9,404	11,388	12,722	+ 21.1	+ 35.3
Munition industries[2]	3,952	5,317	6,908	+ 34.5	+ 74.8
Iron and steel	1,219	1,508	1,636	+ 23.7	+ 34.2
Machinery	978	1,400	1,713	+ 43.1	+ 75.2
Automotive	534	568	478	+ 6.4	− 10.5
Transportation equipment	331	739	1,768	+123.3	+434.1
Nonferrous metals	296	358	371	+ 20.9	+ 25.3
Chemicals and products	345	459	655	+ 33.0	+ 89.9
Petroleum and coal products	116	123	125	+ 6.0	+ 7.8
Rubber products	133	162	162	+ 21.8	+ 21.8
Other industries[3]	5,452	6,071	5,814	+ 11.4	+ 6.6
Lumber and timber	476	532	484	+ 1.8	+ 1.7
Furniture, etc.	364	404	350	+ 11.0	− 3.8
Stone, clay, and glass	327	389	354	+ 19.0	+ 8.3
Textiles	2,001	2,211	2,098	+ 10.5	+ 4.8
Leather products	340	375	350	+ 10.3	+ 2.9
Food	948	1,049	1,125	+ 10.7	+ 18.7
Tobacco	95	97	99	+ 2.1	+ 4.2
Paper and products	283	329	295	+ 16.3	+ 4.2
Printing and publications	333	349	324	+ 4.8	− 2.7
Miscellaneous industries	285	336	335	+ 17.9	+ 17.5

SOURCE: Bureau of Labor Statistics.
[1] Totals may not equal sum of industry groups because of difference due to rounding.
[2] Not identical with usual durable manufacturing group.
[3] Not identical with usual nondurable manufacturing group.

numbers of male farm workers to higher-paying industrial jobs and the withdrawal of young men into the armed services, agricultural employment rose considerably from prewar levels. In the summer of 1942 farm employment reached 11,700,000, or 800,000 higher than the 1941 summer peak. Increased participation of women was largely responsible for preventing serious labor shortages in agriculture. In October, 1942, there were 1,600,000 women working on farms as against 900,000 in October two years ago.

Geographical Changes

All regions of the country have shared in the widespread employment gains of the past two years, but the degree of expansion has varied considerably from area to area. Percentage gains in the number of nonagricultural employees, even when computed on a broad regional basis, ranged from 13 per cent in the Mountain and Middle Atlantic States to 36 per cent in Pacific Coast States (Table III). Much wider variations

TABLE III. ESTIMATED NUMBER OF EMPLOYEES IN NONAGRICULTURAL ESTABLISHMENTS,[1] BY GEOGRAPHICAL REGIONS, OCTOBER, 1940, 1941, AND 1942 (IN THOUSANDS)

Region	October 1940	October 1941	October 1942	% Change from October, 1940: October 1941	% Change from October, 1940: October 1942
	All Nonagricultural Establishments				
United States, total[2]	32,276	36,053	38,478	11.7	19.2
New England	2,786	3,119	3,238	12.0	16.2
Middle Atlantic	8,403	9,213	9,531	9.6	13.4
East North Central	7,336	8,259	8,707	12.6	18.7
West North Central	2,443	2,684	2,909	9.9	19.1
South Atlantic	3,923	4,395	4,826	12.0	23.0
East South Central	1,548	1,796	1,932	16.0	24.8
West South Central	2,012	2,248	2,553	11.7	26.9
Mountain	834	916	1,042	9.8	24.9
Pacific	2,664	3,106	3,584	16.6	34.5
	Manufacturing				
United States, total	11,406	13,596	15,313	19.2	34.3
New England	1,303	1,559	1,654	19.6	26.9
Middle Atlantic	3,303	3,896	4,140	18.0	25.3
East North Central	3,226	3,816	4,211	18.3	30.5
West North Central	559	657	835	17.5	49.4
South Atlantic	1,294	1,506	1,653	16.4	27.7
East South Central	485	599	693	23.5	42.9
West South Central	409	469	600	14.7	46.7
Mountain	114	128	164	12.3	43.9
Pacific	713	966	1,362	35.5	91.0

SOURCE: Bureau of Labor Statistics.
[1] Excludes domestic servants, proprietors, and self-employed.
[2] Total exceeds sum of regions because there is no basis for distributing some employment, such as employment on merchant vessels, among the various regions.

occurred, of course, among individual states and specific local areas. For example, a slight decline in employment was recorded in North Dakota—the only state to report a decrease between October, 1940, and October, 1942; yet Kansas, located within the same geographical region (West North Central), reported an employment gain of 44 per cent. Similarly, factory employment in Lynn, Massachusetts, more than doubled between 1940 and 1942, whereas in Somerville—only a few miles distant—factory employment declined by almost 20 per cent.

Variations in the geographical pattern of employment changes can

be brought into sharper focus by examining changes in manufacturing industries alone. The rate of expansion in factory employment between October, 1940, and October, 1941, was relatively uniform among all major geographic divisions except the Pacific Coast States. Because the West Coast contains a large part of the nation's aircraft plants and many of its shipyards, factory employment in this region was unusually sensitive to the stimulus created by the National Defense Program, registering a gain of 35 per cent as compared with the national average of 19 per cent (Table III). However, the general upturn in all manufacturing lines—consumers goods as well as producers goods and war materials—enabled all major manufacturing areas to record substantial gains in employment between October, 1940, and October, 1941, regardless of their industrial composition. Moreover, the expansion during this period resulted almost entirely from more intensive utilization of existing plant capacity, and this tended to maintain the existing geographical distribution of manufacturing employment.

Between 1941 and 1942, on the other hand, increases resulted from utilization of new plant facilities as well as from more intensified operation of existing plants. For strategic reasons many war plants were erected in relatively new manufacturing areas in the interior of the country. The effects of this policy are clearly indicated by large proportionate gains in the Mountain and West Central Regions, which were second only to the Pacific Coast Region in the rate of employment increase between October, 1941, and October, 1942. During this period, the percentage gains in all of the regions between the Mississippi River and the Rocky Mountains were well in excess of the national average, but in the previous year none of these regions had as much as equaled the national average.

Whereas all regions west of the Mississippi increased their factory employment at a more rapid rate during 1941-42 than during the preceding year, the reverse was true in all regions east of the Mississippi. Manufacturing employment in the eastern part of the country continued to expand, but at a slower pace than in the earlier period. The failure of the eastern states to maintain their previous rate of increase was due to the concentration of consumers goods industries—especially those not readily convertible to war production—in the eastern part of the country as well as to the natural difficulty of attaining further gains as capacity limits were approached.

It has been possible to highlight only some of the general trends in manufacturing employment on a broad regional level. Limitations upon labor mobility imposed by local housing and transportation shortages as well as by variations in occupational requirements have caused the development of local areas of stringent labor shortage within states or

regions which, on the whole, have lagged behind the rest of the nation in the growth of manufacturing employment. An outstanding example of such variations among local labor market areas is the development of critical labor shortages in up-state New York, northern New Jersey, and Connecticut, despite an abundant labor surplus in the New York City metropolitan area, which has been particularly hard hit by curtailment of consumer industries.

This uneven distribution of labor demand among local labor market areas as well as among broad geographic regions complicates both the immediate problem of mobilizing our manpower for peak war production and the future problem of postwar industrial demobilization.

TABLE IV. SEX COMPOSITION OF THE CIVILIAN LABOR FORCE, BY EMPLOYMENT STATUS, OCTOBER, 1940, 1941, AND 1942 (IN MILLIONS)

Employment Status and Sex	October 1940	October 1941	October 1942	% Change from October, 1940	
				October 1941	October 1942
Civilian labor force, total	54.4	54.1	54.0	− .6	− .7
Male	41.3	40.4	39.0	− 2.2	− 5.6
Female	13.1	13.7	15.0	+ 4.6	+14.5
Employed, total	47.0	50.2	52.4	+ 6.8	+11.5
Male	36.2	37.9	38.1	+ 4.7	+ 5.2
Female	10.8	12.3	14.3	+13.9	+32.4
Unemployed, total	7.4	3.9	1.6	−47.3	−78.4
Male	5.1	2.5	.9	−51.0	−82.4
Female	2.3	1.4	.7	−39.1	−69.6

SOURCE: Bureau of the Census, *Monthly Report on the Labor Force.*

Composition of the Labor Force

The 4 million increase in the total labor force between October, 1940, and October, 1942, represents the entrance of 2.6 million men and women over and above the estimated normal increment of 1.4 million; i.e., 700,000 a year. Male and female entrants each accounted for approximately 2 million of the increase. Most of the increase (2.9 million) occurred in the second year, a percentage increase in labor force which, when information becomes available, may prove to be the largest gain for a single year in the labor force of any of the combatant nations. Approximately 1.5 million of the increase was accounted for by males and 1.4 by females. Thus in the second year it may be seen that over 1 million women entered the labor force over and above the estimated normal increment of 300,000.

With the withdrawal of approximately 4.4 million males either from the labor force or from readily available nonworker groups for the armed forces there was a decline (see Table IV) of about 2.3 million

males in the civilian labor force in the two-year period and an increase of 1.9 million females. Employment of women rose from 10.8 million in October, 1940, to 14.3 million in October, 1942, for a gain of 3.5 million, as against an increase of 1.9 million men in civilian employment of which only 200,000 occurred in the year ended October, 1942. This increase of 3.5 million in the employment of women reduced the num-

TABLE V. ESTIMATED EMPLOYMENT OF TOTAL FACTORY WAGE EARNERS AND FEMALE WAGE EARNERS BY MAJOR INDUSTRY GROUP[1] OCTOBER, 1941, AND OCTOBER, 1942[2] (IN THOUSANDS)

Major Industry Group	October, 1941		October, 1942	
	Total	Women	Total	Women
Manufacturing industries	11,388	2,676	12,686	3,207
Durable goods industries	5,898	500	7,120	921
Iron and steel and their products	1,508	107	1,626	183
Electrical machinery	482	145	592	199
Machinery (except electrical)	918	51	1,115	103
Transportation equipment (except automobiles)	739	8	1,744	183
Automobiles	568	28	477	58
Nonferrous metals and their products	358	62	371	61
Lumber and timber basic products	532	9	484	25
Furniture and finished lumber products	404	37	356	51
Stone, clay, and glass products	389	53	355	58
Nondurable goods industries	5,490	2,176	5,566	2,286
Textile-mill products and other fiber manufactures	1,299	580	1,253	592
Apparel and other finished textile products	913	693	848	657
Leather and leather products	375	150	350	154
Food and kindred products	1,049	298	1,123	333
Tobacco manufactures	97	66	99	66
Paper and allied products	329	80	296	77
Printing, publishing and allied industries	349	71	325	73
Chemicals and allied products	459	79	650	147
Products of petroleum and coal	123	1	126	1
Rubber products	162	43	162	58
Miscellaneous industries	335	115	334	128

[1] The classification of industrial establishments, for the most part, is based on regular peacetime activities of the reporting establishments.

[2] October, 1942, estimates are preliminary. These estimates are based on the Bureau's revised series of factory employment adjusted to levels derived from data reported by employers under the state unemployment compensation programs, made available by the Bureau of Employment Security of the Social Security Board.

ber of unemployed women by 1.6 million. In the same period the number of unemployed males was reduced by 4.2 million, or by 51 per cent against the 39 per cent reduction of unemployed females.

Employment of women wage earners in manufacturing establishments increased by 500,000 from October, 1941, to October, 1942 (see Table V). The durable goods industries, primarily devoted to war production, absorbed about four-fifths of the year's increase in female employment. In that group the employment of women wage earners

increased from 500,000 to 921,000 for an increase of 84 per cent. The number of men in the durable goods industries increased by 800,000.

The transportation equipment group led with a gain of 175,000 women—almost entirely due to increased hiring in aircraft plants where women now constitute 1 out of 4 wage earners against 1 out of 75 before Pearl Harbor. Large increases in female wage earner employment were also reported by the machinery industries and by plants manufacturing iron and steel products.

TABLE VI. AGE COMPOSITION OF THE CIVILIAN LABOR FORCE, BY EMPLOYMENT STATUS
OCTOBER, 1940, 1941, AND 1942 (IN MILLIONS)

Employment Status and Age	October 1940	October 1941	October 1942	% Change from October, 1940	
				October 1941	October 1942
Civilian labor force, total	54.4	54.1	54.0	− .6	− .7
14–24	12.5	12.0	11.8	− 4.0	− 5.6
25–54	34.0	34.0	33.7	—	− .9
55 and over	7.9	8.1	8.5	+ 2.5	+ 7.6
Employed, total	47.0	50.2	52.4	+ 6.8	+11.5
14–24	9.9	10.7	11.3	+ 8.1	+14.1
25–54	30.4	32.1	32.9	+ 5.6	+ 8.2
55 and over	6.7	7.4	8.2	+10.4	+22.4
Unemployed, total	7.4	3.9	1.6	−47.3	−78.4
14–24	2.6	1.3	.5	−50.0	−80.8
25–54	3.6	1.9	.8	−47.2	−77.8
55 and over	1.2	.7	.3	−41.7	−75.0

SOURCE: Bureau of the Census, *Monthly Report on the Labor Force.*

In the nondurable goods industries the number of women employed increased by 110,000—largely in ammunition and explosive plants—while the number of men decreased by 34,000. To some extent this reflects the hiring of women to replace men who have shifted to the higher-paid, heavy war industries or who have entered the armed forces.

The urgency of the wartime demands for manpower has been sufficient to reduce unemployment among the youngest age groups to a relatively insignificant figure and to draw an abnormally large number of younger workers into the labor market. Despite the fact that well over 2 million men under 25 entered the armed forces between October, 1940, and October, 1942, the number of persons under 25 in the civilian labor force declined by only 700,000 (see Table VI).

In the age group 25-54, the drain of younger men into the armed forces more than offset the increased participation of women, and their number in the civilian labor supply declined about 300,000. Delayed retirements and normal population growth combined to increase the number of workers 55 and over in the labor force by about 600,000.

This bracket experienced the largest percentage increase in employment and the smallest (but substantial) decrease in unemployment.

The Outlook for 1943

Estimated manpower requirements of industry and the armed forces point to further rapid expansion of the nation's labor force during 1943. The beginning of the new year will find a total of approximately 60 million persons in the civilian labor market and the armed services, and by the end of the year a total of approximately 63 million will be required. As was the case in 1942, the dominant factors underlying the increase in the labor force during 1943 will be continued expansion of the armed forces and increases in factory employment. These increases will be offset to some extent by declines in other sectors. A sharp drop in construction activity is anticipated as erection of new plant facilities is completed and other construction curtailed because of material shortages. Substantial declines are also expected in wholesale and retail trade and in various service activities. Within manufacturing, likewise, marked gains in the metal-using and chemical industries will be partially balanced by declines in other components such as textiles, building materials, paper, and printing.

It is expected that the end of the next year will find agricultural employment somewhat below the year-end level for 1942. However, participation of students, housewives, and other persons not normally in the labor force is expected to make possible the maintenance of seasonal peaks in farm employment, so that the growing demand for agricultural products may be met.

The required expansion of approximately 3 million in the labor force during 1943 does not assume that all civilian activities will be cut to the rock-bottom minimum, although local labor shortages and lack of material will require drastic cuts in many lines. It is conceivable that employment in the nonwar sectors of the economy could be reduced to such an extent that, in terms of numbers alone, a labor supply sufficient to meet war production needs would be released. If such a policy were followed, it might be possible theoretically to meet the manpower requirements of the war program with little or no over-all increase in the labor force during 1943. Curtailment of employment in civilian activities, however, can do little to relieve labor shortages in war industries unless the workers released possess the proper skills and, even more important, unless they live in or near centers of war production. War production centers are already overcrowded. Housing and transportation facilities are taxed to the limit. To bring more workers into these centers would aggravate the crowded conditions and intensify the problems that accompany them. Thus, it is desirable to attempt to

meet manpower shortages through more intensive utilization of the labor force and the labor reserves already present in areas where additional workers are needed. Migration may have to be encouraged, however, whereas heretofore, though it has been extensive, it has been officially discouraged.

Although it will be possible to release some workers through curtailment of nonwar activities in these areas, the extent to which manpower shortages can be relieved from this source is limited by the increased civilian needs accompanying the huge population gains in many centers of war production. The bulk of the additional workers needed must be supplied from housewives, students, retired workers, and other persons who normally do not participate in the labor market.

In October, 1942, there were approximately 45 million persons aged 14 and over who were not in the labor force. These included some 29 million homemakers, 8 million students, and 8 million persons in institutions, unable to work, or in other nonworker categories. Among the homemakers, roughly 17 million were under 45 years of age and of these some 13 million lived in nonfarm areas. It is estimated, moreover, that about 15 million homemakers had no children under 16 years of age.

These totals indicate that over-all labor reserves are ample to meet anticipated manpower requirements. Nevertheless, the recruitment of workers with the necessary skills and in areas where they are needed presents no easy task. Wherever manpower shortages exist, extensive recruitment and training programs must be maintained and every practical measure taken to facilitate the conversion of the local labor potential into an active labor force.

EFFECTS OF THE WAR ON WAGES AND HOURS

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The first part of this paper discusses the developments in wages and hours in this country from August, 1939, to the present and the probable trends in wages and hours during the remainder of the war—say, the next two years. The second half deals with the postwar wage issue—both the level of wages and so-called wage "distortions." It indicates the inadequacy of the marginal productivity theory of wages as a tool for analyzing that issue and points out that, for a number of years after the armistice, our principal economic concern will be to prevent prices and, to a lesser extent, wages from skyrocketing in an economy characterized by an abundance of liquid assets and a grossly "excessive" money supply. Under such conditions, the programs of both orthodox economists and Hansenites may be inappropriate and continuation of wartime controls with some central planning of production and investment may be necessary despite armchair theorizing regarding the dividing line between government and business activities.

Wartime Wages and Hours

Adequate monthly data on hourly wage scales or average hourly wage rates by industry or by occupation are not available, so that this discussion of wages will be based mainly on the average hourly earnings data published each month for a nonuniform sample by the U. S. Bureau of Labor Statistics. Average hourly earnings have increased much more than hourly wage rates due to overtime payments, shift premiums, bonuses, the emphasis of the war on high-wage occupations and industries, increases in the efficiency of piece-rate workers, etc. The importance of such factors in spreading the gap between wage rates and average hourly earnings varies from industry to industry but taken together they probably account for one-half of the increase in average hourly earnings in durable-goods manufacture since August, 1939.[1] In war industries like aircraft, shipbuilding, automobiles, machine tools, and heavy equipment, average hourly earnings including overtime hours

[1] For example, B.L.S. studies show that, between August, 1939, and the spring of 1942, overtime alone accounted, on the average, for 34 per cent (range 9 to 48 per cent) of the increase in average hourly earnings in ten branches of the machinery industry. The percentages were calculated from figures in the following table, which also indicates the percentage by which hourly earnings exceeded estimated average hourly earnings exclusive of extra overtime earnings in those industries.

were from 10 to 15 per cent above such earnings for regular hours in the spring of 1942.[2]

Wages in wartime can be judged according to the following criteria:

1. Do they provide the proper incentive to production, especially war production?
2. Do they facilitate the transfer of labor from less essential employment to war industries and provide the proper distribution of labor between industries and occupations?
3. Do they provide for the proper sharing of the burdens of the war?
4. Do they stimulate inflation?

The first two criteria concern production; the second is definitely part of the manpower problem. The third question is largely an ethical one of the distribution of money income between the various factors of production and is tied up with such matters as tax burdens, rationing, compulsory savings, and government bond purchases.[3] The fourth question concerns the upward push on prices of wages as an element in cost of production and the upward pull on prices of wages as income.

Obviously, these four criteria may conflict with one another. Wages that would facilitate production might also facilitate inflation.

Industry	Percentage Increase, August, 1939, to February–June, 1942		Estimated percentage by which overtime payments raised average hourly earnings, February–June, 1942
	In average hourly earnings	In estimated average hourly earnings exclusive of extra overtime earnings	
Agricultural machinery	20.5	18.7	4.4
Mining machinery	31.8	22.9	8.9
Textile machinery	19.6	10.2	11.1
Miscellaneous industrial machinery	21.4	11.3	14.8
Oil-field machinery	12.4	7.2	6.2
Machine tools	27.3	18.0	13.0
Construction machinery	30.8	19.6	11.5
Combustion engine	32.3	20.4	11.2
Tractor plants	31.1	22.1	8.7
Food-products machinery	26.5	17.9	10.7

SOURCE OF DATA: *Monthly Labor Review*, LIV, 1180, 1371, and LV, 111, 120, 310, 582, 806, 1044, 1050, 1245.

[2] National Industrial Conference Board reports of average hourly earnings for 24 industries plus the foundry and machine-shop industries show that in March, 1942, average hourly earnings for "all work" exceeded average hourly earnings for "regular work" by the following percentages: shipbuilding, 13.0 per cent; foundries and machine shops, 12.9 per cent (range for five divisions, 9.6 to 14.2 per cent); automobile industry, 12.5 per cent; aircraft, 11.9 per cent; electrical manufacture, 10.0 per cent, with a range of 0.7 to 6.6 per cent for the other 21 nonmunitions industries. (Calculations from data in Table 1, p. 344, of *The Conference Board Management Record*, Vol. IV, November, 1942.) See also the third column in the table in footnote 1.

[3] This question will not, as such, be discussed here because of space limitations.

It may be stated at the outset that wages have not, generally speaking, pushed up price ceilings, that wages have been one of the least important factors in individual price rises, and that wage increases probably will not lead to extensive and significant upward revisions in price ceilings, although such price revisions undoubtedly will occur in a number of individual cases in the near future. In some war industries, increased productivity has already resulted in considerable price reductions.[4]

A study of price and wage increases shows that, since August, 1939, wholesale price increases (1) have generally preceded wage increases, (2) have been greatest among agricultural products, imported commodities, and certain industrial materials, for which wages are not a key factor and are a small percentage of total costs, and (3) have been smallest in finished manufactured goods embodying a large percentage of labor cost and in the field of metals and metal products (durable manufactured goods), which have been most affected by the war program and in which the percentage rise in average hourly earnings has been the largest for any group.[5] Certainly the evidence indicates that opportunity to make profits without violating price restrictions has been the most important factor in price increases since August, 1939.

The inflationary-pull aspects of increased earnings cannot be fully discussed here. It should be pointed out, however, that expanded employment and longer hours (not wage rate increases) account for most of the increase in manufacturing pay rolls since August, 1939.[5a] Furthermore, a sample survey of spending and saving indicates that city families were actually buying a smaller quantity of goods and services in the first quarter of 1942 than in 1941.[6] Although their average money income rose by about the increase in living costs between the two periods, the increase in their savings absorbed over two-thirds of the increase in their total money incomes. Savings in the income group from $1,500 to $3,000 increased from two to three times between 1941 and the first quarter of 1942 compared with practically no increase for the

[4] Wendell Lund, Director of the Labor Production Division of WPB, stated before the Tolan Committee on September 17, 1942, that the labor requirements for constructing a cargo ship had been reduced from about 700,000 man-hours when the defense program began to little more than 400,000 man-hours and for bombers had been reduced from 75,000 man-hours in 1941 to only 18,000 man-hours. See *Hearings before the Select Committee Investigating National Defense Migration pursuant to H. Res. 113*, 77th Congress, 2nd Session, Part 34, Washington, 1942, p. 13,154.

[5] For further discussion of this point see Walter G. Keim, "Prices and Wages," *Journal of the American Statistical Association*, XXXVII (September, 1942), 378-379, and Isador Lubin, "Wage Policies and Price Trends," *Survey Graphic*, XXXI (January, 1942), 19-20

[5a] Increases in wage rates apparently accounted for about one-fourth of the expansion in labor income during the first 3 war years. See Don D. Humphries, "Price Control in Outline," *American Economic Review*, XXXII (December, 1942), 756.

[6] See "Income and Spending and Saving of City Families in Wartime," *Monthly Labor Review*, LV (September, 1942), 419-420.

$5,000-to-$10,000 group.[7] Indeed, the percentage reductions in expenditures for automobiles and their operation, for durable goods, and for clothing between the two dates were larger for the $1,500-to-$2,000 income group than for the $3,000-to-$5,000 income group.[8] With the additional restrictions on driving, there have been and will be further reductions in consumer expenditures that largely depend upon the normal use of the automobile.

As workers are likely to save a still larger portion of their incomes with increased rationing, shortages, and pressure to buy bonds and to sacrifice, it would seem that the fear that increased money earnings will pull many prices up though the price ceilings may be somewhat exaggerated.[9]

The monthly earnings data of the B.L.S. for 117 industries or classes of business[10] show that the greatest increases in average hourly earnings during the first three years of the war (from August, 1939, to August, 1942) were in nonferrous metals and their products, in shipbuilding, in heavy equipment, tools, and war instruments, and in certain consumer items such as textiles, canning, and men's furnishings, which were well below the average hourly earnings for all manufacturing both in 1939 and in 1942.[11] Of the industries covered by the B.L.S., those experiencing the smallest percentage increases in average hourly

[7] The following table (source, *ibid.*, p. 429) shows the average net savings in percentage of money income in 1941 and early 1942:

Income classes	*1941*	*1942 (1st quarter)*	*Percentage increase, 1941 to 1942*
$1,500 and under 2,000	1.8%	5.6%	311
2,000 and under 2,500	3.3	8.7	263
2,500 and under 3,000	5.0	10.4	208
3,000 and under 5,000	8.8	12.1	137
5,000 and under 10,000	17.6	18.4	105

[8] See *Monthly Labor Review,* LV (October, 1942), 707.

[9] In an article on "Wages Policy," the *London Economist* (CXLIII, July 25, 1942, 107) points out that in Great Britain the dangers to the price level from "an elastic wages policy have to a substantial degree been overcome by the strict application of rationing, drastic increases in taxation and voluntary saving."

[10] Covering all manufacturing industries, mining, public utilities, trade, services, and construction.

[11] With no allowance for fluctuations in coverage, the percentages for the 20 industries with the greatest increases in average hourly earnings (August, 1939, to August, 1942) were: engines, turbines, etc., 53 per cent; brass, bronze, and copper products, 47 per cent; woolen and worsted goods, 47 per cent; radios and phonographs, 45 per cent; locomotives, 45 per cent; cotton goods, 43 per cent; shipbuilding, 43 per cent; nonferrous metals and their products, 43 per cent; cotton small wares, 42 per cent; aluminum manufactures, 41 per cent; iron and steel forgings, 41 per cent; stamped and enamel ware, 40 per cent; edge tools and cutlery (not including silver and plated cutlery), 40 per cent; silk and rayon goods, 40 per cent; railroad cars, 38 per cent; beet sugar, 38 per cent; clocks, watches, and time-recording devices, 38 per cent; men's furnishings, 37 per cent; canning and preserving, 36 per cent; tools (not including edge tools, files, and saws), 36 per cent; machinery, 35 per cent. Aircraft was 34 per cent. In the six months from July, 1941, to January, 1942, average hourly earnings increased 25 per cent in 11 midcontinent airframe plants. See *Monthly Labor Review,* LV, p. 773.

earnings during the first three years were public services, retail trade, certain nonmetallic materials, some industries affected by raw materials shortages such as rubber tires, and certain consumer items like ice cream, beverages, printing and publishing, etc.[12] The average increase in hourly earnings for all manufacturing industry during this three-year period was about 35 per cent compared with a 28 per cent increase in average hourly earnings in private employment on construction measured from either August, 1939, or from August, 1940, to September, 1942, and an increase of 77 per cent in average farm wages without board from 1939 to October, 1942.

The largest percentage increases in hourly earnings have, generally speaking, been experienced in industries directly affected by the war (metals, metal fabrication, and ships) and in certain low-wage industries. Over half of the 20 B.L.S. industries with the highest percentage increases during the three-year period were industries paying average hourly earnings below the average for all manufacturing industries in 1939, whereas 13 out of the 16 industries with the smallest wage increases since 1939 were paying average hourly earnings above the average for all manufacturing in that year. Of the 20 B.L.S. industries with the largest increase in average hourly earnings from August, 1941, to August, 1942, over half were still below the average for all manufacturing in August, 1942. Agricultural wages have, of course, been notoriously low.

The largest increases in average hourly earnings have, generally speaking, assisted in the proper distribution of labor by inducing transfer to activities most essential to the war program and by restraining transfers to less essential work.[13] This has been true, for example, on the farm and in nonferrous metals, in which the National War Labor Board granted sizable wage increases in October of this year. The decisions of the Board have tended to help labor morale and to check labor turnover by reducing "inequalities" between industries and firms in the same general area. Such reductions in "inequalities," along with both the Board's policy of granting uniform wage increases in cents to all workers in the plant and the minima under the Fair

[12] The percentages for the 10 industries with the smallest increases (August, 1939, to August, 1942) were: telephone and telegraph, 2 per cent; general merchandising, 3 per cent; anthracite coal, 6 per cent; book and job printing, 8 per cent; ice cream, 9 per cent; retail trade, 11 per cent; beverages, 13 per cent; printing and publishing of newspapers and periodicals, 13 per cent; and rubber tires and tubes, 14 per cent.

[13] There is, however, little excuse on manpower grounds for a 25 per cent increase in average hourly earnings in the jewelry industry from August, 1939, to September, 1942, and the large increases in textiles can only be justified by the existing low wages, the marked lag of textile wages behind the general increase for all manufacturing from 1936 to August, 1939, the large increase in productivity per man-hour in certain textile lines, and the large increase in textile prices giving the industry the highest mark up it had ever had.

Labor Standards Act, have tended to raise the wages of the lower-paid workers relative to the higher-paid.

Labor union influence may help to explain part of the wage increases in nonferrous metals, radios, textiles, and shipbuilding, and the lack of such influence probably helps to explain the small increases in public utilities, trade, and white-collar lines. The tendency for unions to prefer uniform cents-per-hour increases also helps to explain why, generally speaking, unskilled workers have received greater percentage increases than have skilled workers.[14] However, union influence can hardly explain the large percentage wage increase for farm labor or the large percentage increases in wage rates for common labor in cities like Norfolk, Virginia, Mobile, Alabama, Wichita, Kansas, Portland, Maine, and Charleston, West Virginia, during the past two or three years. It requires higher wages to induce a worker to migrate to crowded war-production centers where costs of living are high and where conditions may be such that his family must be left behind.

Of the 73 cities covered by the B.L.S. annual survey of union building-trades wage rates, the 5 cities named in the previous paragraph showed the largest increases for helpers and laborers between July 1, 1939, and July 1, 1942. In those 5 cities, the average total of the three yearly percentage increases in union wage rates was 40 per cent for helpers and laborers compared with 27 per cent for journeymen in the building trades.[15]

Perhaps the greatest occupational increases in average hourly earnings from 1939 to 1942 have been in such skilled occupations as tool and die workers, tool designers, pattern makers, and certain types of welders. In some of the machinery industries, average hourly earnings in such occupations increased as much as 35 or 40 per cent from 1938 or 1939 to the spring of 1942. Examination of statistics for various machinery industries, however, reveals that the percentage increases in hourly earnings for workers in a number of semiskilled and unskilled classifications[16] averaged as much as for workers in the above skilled occupations, and a summation of changes in five machinery industries, including the machine-tool industry, indicates that percent-

[14] A review of B.L.S. material on wage changes which were more or less general in over 800 plants in nine war industries since December 1, 1941, shows that almost three times as many workers received cents-per-hour increases as received percentage increases in each of the nine industries. In a substantial number of cases the minimum hiring rate has been raised in addition to the uniform increases.

[15] Addition of the three yearly percentage increases for all 73 cities combined gives a total of 16.8 per cent increase for all helpers and laborers compared with 10.7 per cent for journeymen. See *Union Wages, Hours, and Working Conditions in the Building Trades, June 1, 1941*, U. S. Bureau of Labor Statistics Bulletin No. 680, p. 22, and *Monthly Labor Review*, LV (December, 1942), 1264.

[16] Examples in the semiskilled categories include working foremen, sheet-metal workers, and testers, and in the unskilled categories are assemblers, drill press operators, and elevator operators.

age increases for semiskilled and unskilled classes averaged slightly larger than for the skilled classes.[17]

The tendency for wage rates and hourly earnings to increase more rapidly for unskilled than for skilled labor and for wages in war industries to increase more than in nonwar industries was observable in the war-inflation period from 1914 to 1920.[18] During that period, wages of farm labor and common labor increased more than wages for factory workers as a whole, and factory wages increased more than the general level of wages for union skilled labor.[19] Much the same tendencies are to be found in the British wage statistics during this war.

On the basis of (a) experience during this and the last war, (b) the policies of the National War Labor Board, and (c) increasing shortages in manpower, one can predict the following developments or trends in wages and hourly earnings in this country during the remainder of the war:

1. The level of wage rates, with some exceptions such as agriculture and low-wage plants, will not rise much above the level of September 15, 1942, as stipulated in the Act of October 2, 1942, providing for wage and salary stabilization except for approved increases "to aid in the effective prosecution of the war and to correct gross inequities."[20]

2. With no change in the nominal work week or overtime payments, average hourly earnings will continue to increase at a rate of perhaps 10 per cent a year for the next two years as actual hours worked increase, as productivity increases under piecework or incentive plans, as merit or length-of-service increases are granted, etc.

3. Low-wage groups will continue to gain relative to higher-paid workers. Agricultural wages especially will experience a relative increase. Equal pay for equal work irrespective of the worker's sex or

[17] Statements in this paragraph are based on calculations from the data in the following B.L.S. releases: *Earnings of Employees in the Machine Shop Industries,* dated March 18, 1941, and *Survey of Earnings in Machinery and Allied Industries,* Series I, Nos. 1, 2, 3, 7, and 9, dated April 20, May 12, June 9, September 1, and September 20, 1942.

[18] For example, between September, 1914, and March, 1919, average hourly earnings in chemicals increased 112 per cent for unskilled labor compared with 91 per cent for skilled labor, and increased 95 per cent and 97 per cent respectively for foundry labor and for unskilled labor in metal industries compared with increases ranging from 67 to 82 per cent for tool makers, pattern makers, molders, core makers, blacksmiths, and machinists. See *Monthly Labor Review,* X (January, 1920), 143.

Between May, 1914, and May, 1920, union scales of hourly wage rates in building increased as follows: plasterers 70 per cent and plasterers' labor 106 per cent; bricklayers 69 per cent and hod carriers 129 per cent; building laborers 136 per cent compared with 71 per cent for plumbers, 95 per cent for carpenters, and 106 per cent for painters. See A. Epstein, "Have American Wages Permitted an American Standard of Living?" *Annals of the American Academy of Political and Social Science,* XCVII (September, 1921), 187.

[19] See Alvin Hansen, "The Outlook for Wages and Employment," *American Economic Review,* XIII (supplement, March, 1923), 29, 32.

[20] The Executive Order of October 3, 1942, states: "The National War Labor Board shall not approve any increase in the wage rates prevailing on September 15, 1942, unless such increase is necessary to correct maladjustments or inequalities, to eliminate substandards of living, to correct gross inequities, or to aid in the effective prosecution of the war."

color will be a factor in the improvement of the position of low-paid workers.

4. With or without national service legislation, there will be a continuing tendency for hourly earnings to be closely related to the urgency of the work in the war program and to the scarcity of labor in the area or the industry.

5. With or without national service legislation, wage rates and hourly earnings will tend to be more uniform within each industry and area, although marked regional differentials, such as the North-South differential, which has not been greatly reduced, may not be affected much except perhaps in agriculture.

6. Generally speaking, physical productivity per man-hour will increase more rapidly than wage rates although probably less rapidly than average hourly earnings.[21]

7. Hourly earnings will be more closely related to prices than has been true during the past decade, because there will not be wide variations in the ratio of output to plant capacity.

Earnings must still continue to provide an incentive to output and proper labor mobility. The only real alternative to the utilization of earnings to facilitate the transfer of labor is requisitioning for specific uses.[22] Workers will not remain frozen in low-paying jobs (such as farm work, lumber operations in the South, and metal mining in the Southern Rocky Mountain area), when they can qualify for jobs elsewhere at higher earnings and under better working conditions.

During the half century prior to the outbreak of this war average actual and full-time hours per week in American industry had been declining. They declined progressively in the various branches of American industry during World War I. The period since August, 1939, represents the first reversal in the downward movement of weekly hours since 1890. Between August, 1939, and August, 1942, average hours of work in the 117 industries and classes of industry covered by the B.L.S. monthly earnings data increased from 38.0 to 42.8 hours a week, or an increase of 12.6 per cent. With two exceptions,[23] the 20 industries with the largest percentage increases in hours during that period were shipbuilding and metal industries on war work. All of these war industries were averaging between 44 and 52 hours a week in

[21] The B.L.S. extension through 1941 of the indexes of productivity for 59 manufacturing industries examined by the National Research Project on Re-employment Opportunities and Recent Changes in Industrial Techniques indicates as great an increase in productivity from 1937 to 1941 as from 1929 to 1937, and an average increase in productivity per man-hour of 3.5 per cent a year for the 12 years. Between 1937 and 1941 productivity per man-hour and average hourly earnings seem to have increased by about the same percentage. See *Monthly Labor Review,* LIV (May, 1942), 1071-1072.

[22] Public appeals alone are not a solution. The WPB has even hesitated to apply its legal requisitioning powers to direct the use of privately-owned machinery.

[23] Anthracite coal and silverware and plated ware.

August, 1942. With an increasing labor shortage in this country, the average actual work week for all industry can be expected to rise to between 46 and 48 hours within the next two years.

The provisions of the Fair Labor Standards Act and of union agreements, requiring payment of time and a half for hours in excess of 35 or 40 a week have tended to restrain increases in average weekly hours, especially in nonwar production. It is claimed that these provisions have likewise served to retard total civilian production. To the extent that they helped to create or maintain a manpower shortage that limited production, the allegation was true. However, the factors limiting production prior to 1943 were mainly lack of materials or proper equipment and, in some cases, insufficient expansion in demand for the product and not an absolute shortage of labor except in certain raw-material industries, like metal mining and lumber, and in agriculture.[24] Increased hours in lumber and metal mining probably would have, as the lumber unions maintained, helped to solve the labor shortage there. With proper planning and sufficient powers, it might have been possible, by increasing the standard work week in bituminous coal from 35 to 42 hours through a 6-day week, to release some coal miners for training as hard-rock miners.

Aside from these raw materials, it is questionable whether, without national service legislation, labor shortages would have been relieved with an increase in average hours in civilian production from say 40 to 48 a week. It seems unlikely that punitive overtime rates would cause production of civilian products to be limited to a volume below the amount of materials or facilities available for such production and below the demand for the product. Consequently, present punitive overtime provisions will hinder the production of civilian products only to the extent that they help to attract or retain workers in certain lines of industry who, if punitive overtime rates began after 48 or 50 hours a week, would be laid off by their employer and whose lay-off would either directly or indirectly cause more labor to be offered to some plant in which shortage of labor was the factor limiting production of civilian items.

Increasing overtime hours do, however, raise an important policy issue. As already indicated, overtime alone accounts for one-third to one-half of the increase in average hourly earnings since August, 1939, in many industries, and has raised average hourly earnings in such industries 10 to 15 per cent above the average exclusive of overtime.[25] It is argued that, by permitting average hourly earnings to rise without

[24] Of course, shortage of labor for raw materials helped to make materials short. In all three lines, the labor shortages were largely due to out-migration into the armed services and into war industries where wages and working conditions were more favorable.

[25] See footnotes 1 and 2.

an increase in wage rates, the provision of penalty rates after 40 hours a week helps to keep wage rates down during the war, thereby facilitating the ultimate shift from war to peacetime production.[26] Not only would the level of wage rates be lower at the end of the war as a result of retaining the 40-hour provisions, but they would also help to absorb the unemployed by causing employers to reduce the work week to 40 hours, thereby spreading postwar employment.

Such a shortening of actual working hours would, however, mean a drop of perhaps 25 to 30 per cent in the weekly money earnings of workers retained in their same or in a similar job after the armistice. Certainly organized labor would demand that wage rate increases offset decreases in hours so that weekly earnings would be maintained. Failure to bring average wage rates and average hourly earnings fairly close together during the war, when the adjustment could be made with little disturbance or difficulty, will leave the problem of accumulating wage adjustments to be worked out during the trying period of transition to a peace economy. It is questionable whether the government will be in a better position right after the war than during the war to decide which wage rates ought to be raised or lowered and by how much. The adoption and execution of any national wage policy will be more difficult after the armistice.

The Postwar Period

In discussing the postwar aspects of wage scales and earnings, one must consider the probable nature of the postwar economy. After the 1918 Armistice, prices and wages in this country rose more rapidly than during the war, so that our price level and wage level increased as much in less than two years following the Armistice as they had during the four years of the war. This time the postwar factors that will be operating to push up prices will undoubtedly be much stronger.

The most important inflationary factor after this war will be the wide discrepancy that will exist between the money supply and "liquid" assets on the one hand and the level of prices and wages on the other. Our war economy is one of surplus or excess monetary purchasing power. During the past year our money supply (cash and checking accounts) has increased about 50 per cent. In recent months approximately half of the increase in federal securities has been purchased by expansion of bank credit, and government bond purchases by banks this fiscal year have been estimated at between 25 and 30 billion dollars.[27] It is not

[26] See Sumner H. Slichter, *Economic Factors Affecting Industrial Relations Policy in National Defense,* 1941, p. 65.

[27] Some economists question whether people will accumulate such large unspent balances, arguing that instead surplus funds will be used for bond purchases far in excess of official estimates. In either case, the "surplus" liquid assets held by individuals would be increased by the dollar sums unspent for consumption or real investment.

unlikely, therefore, that at the end of the war we shall have a money supply three times that for 1941, yet it will be some time after the armistice before industry is reconverted (tooled up and with the necessary inventory), so that civilian goods production and sales will equal the 1941 level.

Not only have individuals been accumulating cash and checking accounts at a rate of almost 16 billion dollars a year, but they have been buying government bonds at a rate of 12 billion a year and liquidating installment and other consumer debt at a rate of three to four billion dollars a year.[28] Most of the increase in individual incomes recently has been going into liquid savings. At the same time, business firms are becoming more and more liquid by paying off debts, reducing their civilian-product inventories, and by increasing their holdings of cash and marketable securities.

One should bear in mind that the large "excess" money supply can be reduced only by reversing the process by which it grew. The alternatives are to "immobilize" the money or to absorb it either through inflation or through increased production of goods and services. Professor Slichter believes that "the elimination of 'excessive' demand deposits" through increased physical production may take 10 or even 20 years.[29]

Factors tending to dampen or to check inflationary spending after the war will be the decline in federal expenditures, the decrease in European demand for some American products (food, for example) a few years after the armistice, and the volume of unemployment here, especially during the reconversion period. Such unemployment and the fear of further unemployment may have an important depressing effect on workers' spending. The extent to which wartime deferred demand will be a factor stimulating the postwar spending of "excess" funds is subject to debate.[30]

Comparison of the probable situation after this war and the circumstances existing after the 1918 Armistice indicates that stronger inflationary forces will exist this time. Not only will there be the new factor of a wide discrepancy between the price level and the money supply, but at the end of the last war little reconversion of industry

[28] The yearly figures are based on third-quarter estimates by the Securities Exchange Commission of the volume and composition of savings by individuals in its Statistical Series, Release No. 726, November 15, 1942.

[29] See his interesting article, "Postwar Boom or Collapse," *Harvard Business Review*, XXI (Autumn Number, 1942), 34.

[30] The importance of this deferred demand (for housing, consumers' durables, industrial repair and replacement, industrial and public-works adjustments for population shifts, etc.) will depend somewhat on the length of the war and policies regarding materials allocations during the remainder of the war. There was a large amount of "forward buying" by individuals and firms in 1941, and there have been large additions to manufacturing plant and equipment since 1939. Most so-called "deferred demand" can continue to be deferred. The postponement of postponable expenditures characterizes a depression.

was required, inventories for production and sale of civilian goods were not greatly reduced, rationing had not been experienced on a wide scale, individuals and industry had not become so free of debt,[31] and the reduction of government military expenditures to a small figure occurred faster than seems likely to occur after this war. In addition, the accumulated backlog of investment opportunities will probably be relatively larger this time and the income-equalizing effects of this war will be greater, tending to increase the propensity to consume.[32]

Should hostilities end suddenly and decisively, it seems probable that the first few years after this war will be characterized by a scramble for materials and certain facilities, a sudden increase in investment with each firm attempting to get the jump on its competitors, and acute shortages of many products. In short, the "reconversion crisis" may consist of price inflation accompanied by widespread unemployment, at least until plant and industry reconversion in all the necessary phases has been fully completed.[33]

Assuming a postwar situation similar to that here outlined,[34] we shall discuss first the level of wages after the war and then consider the question of so-called "wage distortions" or "disparities."

In discussing the postwar level of wages one should bear in mind that the problem in the immediate postwar years will not be one of reducing the general level of wages but of preventing both prices and wage rates from rising rapidly. The price and wage levels will be too low compared with the money supply. After the war, the upward pull on prices will be greater than on wage rates because of the large volume of "reconversion unemployment" that is likely to occur in the first postwar year. Most of that unemployment will be no more related to wage rates than was the priority and conversion unemployment in 1941 and 1942, but it is likely to lead to widespread complaints against high "union" rates on the part of young men out of work, some employers, and workers whose hourly earnings have lagged behind.[35]

[31] During the last war, many individuals borrowed from the banks to buy government bonds, which meant that the bond holdings of individuals did not represent that amount of disposable funds.

[32] Professor Slichter comes to the conclusion that "if the war does not produce a great rise in prices, it will probably reduce the propensity to save." See *op. cit.*, p. 35.

[33] This is not to deny the likelihood of a downswing that could lead to a severe depression perhaps three to five years after hostilities end.

[34] The postwar situation here assumed resembles in many respects that presented and explained in much more detail by Professor Slichter in the article already referred to.

[35] It has been suggested that our postwar wage level will be too high relative to wage levels abroad. That could only be true if our price level were too high at the prevailing exchange rates; i.e., if our currency were overvalued. It is impossible to tell exactly what price levels and exchange rates will prevail in all countries after the war and, therefore, no one knows whether our currency will be overvalued or undervalued. Elsewhere I have explained that, according to international trade theory, a high level of labor standards in a country need not adversely affect that country's foreign trade. See *Economics of Labor,* 1941, pp. 526-535.

Increased labor productivity per man-hour that will only become fully apparent after the war is another reason that the level of hourly wage rates or hourly earnings exclusive of overtime may, in the first postwar years, be too low compared with the prevailing level of prices. From 1929 through 1941, labor productivity increased over 40 per cent in the group of 50-odd manufacturing industries studied by the National Research Project and the Bureau of Labor Statistics. The increase continued during the period of transition to a war economy after 1939. Despite the rise in hourly earnings, the 1941 labor cost per unit of product manufactured in these industries averaged more than 10 per cent below the 1929 level and slightly less than the 1937 level.[36] At the end of the war, this nation will undoubtedly have the best trained labor force it has ever had and also a large volume of industrial equipment, especially machine tools, per employee.

Other reasons that the level of wages is not likely to be too high are that corporation taxes will be reduced and capital equipment will probably be comparatively cheap both because interest rates will undoubtedly continue to be low[37] and because industries like machine tools and the metals will be relatively overdeveloped, especially after the first postwar years.

Recent studies have indicated that, especially for firms with high overhead costs, the level of operations is much more important than wage rates in determining profits and that changes in volume of plant output may have more effect upon labor costs than changes in wage rates.[38] It has been calculated, for example, that a reduction of money wages to zero between 1929 and 1933 would not have enabled the International Harvester Company to show a positive trading profit on the items investigated.[39] During periods of expanding output, even sizable wage increases in durable goods industries may not prevent profit margins from rising. Consequently, the assumed large expenditures and high rate of output after reconversion in the postwar years

[36] See "Productivity and Unit Labor Cost in Manufacturing Industries," *Monthly Labor Review*, LIV (May, 1942), 1071-1072.

[37] The basis for this belief cannot be explained here, but it rests on the expected postwar monetary, banking, and fiscal conditions, including the assumption that the Federal Reserve Banks will not unload their security holdings, but, on the contrary, are likely to be forced to support the government bond market in order to prevent a drop in bond prices at a time when banks have most of their assets in government securities.

[38] See, for example, *Industrial Wage Rates, Labor Costs and Price Policies*, Temporary National Economic Committee, Monograph No. 5, Part II, 1940, and Lloyd Reynolds, "Relations between Wage Rates, Costs, and Prices," *American Economic Review*, XXXII (supplement, March, 1942), 282-283. Mordecai Ezekiel and Katherine H. Wylie have calculated that, for the U. S. Steel Company, the man-hours of labor per ton of steel produced declines 40 per cent when operations rise from 20 to 90 per cent of rated capacity. See "Cost Functions for the Steel Industry," *Journal of the American Statistical Association*, XXXVI (March, 1941), 98.

[39] *Industrial Wage Rates, Labor Costs and Price Policies, op. cit.*, p. 127.

should be important considerations in judging the wage level.

Neglect of such factors as the above may lead one to erroneous conclusions about the postwar level of wages. In a paper on the outlook for wages and employment at the December, 1922, meetings, Professor Alvin Hansen argued that the then prevailing wage level was "abnormally high" and "out of line with other prices."[40] He pointed out that, on a 1914 base, factory wages in 1922 were 25 to 30 per cent higher than the prices of articles produced in those factories, yet, in his opinion, the marginal productivity of labor was no higher in 1922 than in 1914.[41] Thus, reasoning from the marginal productivity theory of wages, he concluded that the prevailing "wage maladjustment" would mean "a contest of high wages versus full employment," in which the country might "witness a period similar to that of the seventies and the nineties, when real wages were rising but the buying power of labor as a class was low because of widespread unemployment."[42] Economists have since argued that profits were too high and wages too low during the twenties.

Although indicating certain factors that are fundamental in wage determination, the marginal productivity theory does not now, and will not in the postwar world, furnish an adequate basis for judging the proper level of wages in sections of the economy or for the economy as a whole. As I have explained in more detail elsewhere,[43] this theory has become more and more inadequate as an explanation of the demand for labor. Recent studies indicate (1) that the employers are more likely to be guided by average costs and may not be aware of marginal costs,[44] (2) that, under many circumstances, marginal variable costs decline or are constant with increased employment, so that marginal revenue and marginal cost may meet at many points or may not meet at all,[45] (3) that the marginal revenue curve may be discontinuous or uncertain because of industrial price policies, including the "freight allowed" method of price quotation,[46] and (4) that the definition of "marginal productivity" may involve conflicts between the short- and long-run points of view and difficult questions such as whether capital

[40] *American Economic Review,* XIII (supplement), 36.
[41] *Ibid.,* pp. 33-37.
[42] *Ibid.,* pp. 37, 42.
[43] *Economics of Labor,* 1941, chapters 5, 7, 11.
[44] See references *ibid.,* p. 121; also, R. L. Hall and C. J. Hitch, "Price Theory and Business Behaviour," *Oxford Economic Papers,* No. 2, May, 1939, pp. 31-32, and a book review by Richard Ruggles, *American Economic Review,* XXXII (March, 1942), 153.
[45] See, for example, Henry M. Oliver, Jr., "The Relationship between Total Output and Man-Hour Output in American Manufacturing Industry," *Quarterly Journal of Economics,* LV (February, 1941), 239, 252-253, including the numerous references cited on those pages; also Joel Dean, *Statistical Cost Functions of a Hosiery Mill,* 1941, and *The Relation of Cost to Output for a Leather Belt Shop,* National Bureau of Economic Research, Technical Paper 2, December, 1941.
[46] See references *Economics of Labor,* pp. 117, 120.

equipment operated at part capacity has, for the time being, any "marginal productivity."[47]

As a consequence of the horizontal cost curve and the "kinked" demand curve for certain oligopolists, marginal costs may vary over a wide range (not exceeding average revenue) with no effect on output and employment, output being almost solely a function of anticipated sales at the prevailing price.[48] The experience of unions, such as the Teamsters, bears this out. Many nationally advertised products sell for a uniform price all over the country despite the fact that wage rates of local workers who perform identical services in connection with those products may be two or three times higher in some localities and regions than in others.

Especially in industries producing raw materials, capital goods, and other items constituting but a small fraction of total sales price paid by the ultimate consumer, the demand for the industry's product is considered by the employers to have an elasticity of less than unity for prices below the prevailing price and to be more elastic than unity for prices above the prevailing price.[49] Under such circumstances, even a wage rate of zero for the firm would presumably lead to no reduction in price or increase in demand for the product, and an increase in labor costs to the firm that raised average variable costs up to and, for a temporary period even above, selling prices presumably would lead to no change in price or employment. For large-scale industry the important factor in plant employment is sales and not costs.[50] The proportion of labor to machinery actually used in a modern plant already constructed and equipped is generally rather rigid so that, assuming no plant alterations, the rate of operations determines the quantity of the requisite compound of factors actually employed.[51] The manpower shortage is teaching us the definite limits to the substitution of machines for men.

The import of these remarks is that the marginal productivity theory is a "special case" theory really valid only under a set of circumstances that is becoming very rare in our economy. Perhaps the conditions required for the marginal productivity theory are most nearly approached in agriculture, where producers have no price policy, where operations

[47] J. M. Clark thinks not. See *The Structure of the American Economy,* Part II: Toward Full Use of Resources, National Resources Planning Board, 1940, p. 23, footnote.

[48] See Lloyd Reynolds, *op. cit.*, pp. 278, 281.

[49] Detailed studies seem to indicate an elasticity of demand for low-priced automobiles of around 1.5 (with a possible range between .65 and 2.0), an elasticity for steel used as raw material in the automobile industry "probably no higher than .2 or .3," and an elasticity for the steel industry's products as a group of "approximately .3 or .4." See *The Dynamics of Automobile Demand,* General Motors Corporation, 1939, p. 94, and *United States Steel Corporation T.N.E.C. Papers,* U. S. Steel Corporation, 1940, I, 99, 170, 195.

[50] Unless costs become so high that it is to the advantage of the firm to abandon certain lines of production or the owners decide to wind up the business.

[51] See, for example, C. Reinold Noyes, "Certain Problems in the Empirical Study of Costs," *American Economic Review,* XXXI (September, 1941), 482.

are at full capacity, and where a fixed working crew is not required, so that the factors of production can be varied somewhat even during the crop year. Nevertheless, the costs of harvest labor could be increased almost to the price of the crop on the farm, without much effect on that season's farm employment.

Assuming that the volume of production and employment in existing plants is largely governed by sales, it is claimed that wages costs affect new investment by decreasing the marginal efficiency of capital.[52] One may question the application of marginal analysis to the unmeasurable risks involved in new capital investment,[53] and, although labor costs do influence expected returns from investment, many other factors such as the development of new products and methods, present and prospective prices and sales, existing and expected taxes, other cost elements, and various nonprofit considerations, play a role in new capital investment. The present rate of operations and expected future demand are probably the most important factors, indicating both the need for capital expansion and probable profit margins, for, as already indicated, profit margins in industries with large overhead costs are apparently influenced more by the rate of operations than by changes in wages.

The factors discussed above in connection with the level of wages—workers' productivity, the level of nonwage costs, and the level of prices, sales, and plant operations—are also pertinent to the question of so-called "distortions" in the wage structure from sharp wartime increases in hourly earnings or wage rates in certain industries, occupations, and localities. The distortions or disparities have arisen from the pattern of wartime demand with its emphasis on certain war items regardless of cost and from the need to attract labor into such expanding war production.

Distortion or disparity can only be judged according to some assumed norm or base. Should the measuring rod be (1) the set of wage relationships that existed in a certain year or (2) the assumed effect of the wages upon employment in the plant, in the industry, or throughout the economy or (3) some assumed "normal" rate of return for each of the productive factors or (4) the estimated "value productivity" per man-hour, which would be greatly influenced by selling prices and rates of operation? Mere mention of some possible criteria indicates the complexity of the problem. The difficulties in attempting to apply the third and fourth criteria should be apparent from previous discussion.

Judged by the first criterion, increases in average hourly earnings

[52] See Slichter, *op. cit.*, pp. 34, 36, and "The Conditions of Expansion," *American Economic Review*, XXXII (March, 1942), 12.
[53] See Frank D. Graham, *Social Goals and Economic Institutions*, pp. 194-197.

have been considered "abnormally large" in agriculture, in shipbuilding, in nonferrous metals, in some occupations in the machinery industries, and in certain war-production centers. Wages on some prewar date are usually selected as the base, and no allowance is made for nonwage factors stressed in this paper.[54]

On a 1939 base, average farm wages per day without board show the greatest percentage increase—77 per cent by October, 1942.[55] It has been pointed out, however, that the selection of a different base gives a different picture. Farm wages in October, 1942, were still more than 20 per cent below the 1920 level, and, on a 1929 base, their percentage or dollar increase was only half that for average daily earnings of factory workers.[56] Average farm wage rates without board on October 1, 1942, were $59.25 a month and $2.76 a day, or well under 30 cents an hour.[57] Comparing farm wages with farm income one finds that each successive year since 1938, the total farm wage bill has been a smaller percentage of the total gross income and of the total net income of farm operators.[58]

In the opinion of some agricultural economists, farm wages will not be "too high" after this war. A year ago Professor J. D. Black told the Farm Economic Association: "The level of farm wages that is attained in wartime needs to be sustained at that level afterwards, relative both to net farm incomes on the one hand and to urban wages on the other."[59]

Generally speaking, the wages that increased the most up to 1920 fell the most between 1920 and 1922. After the last war, farm wages suffered the greatest decline, followed by common labor, while wages

[54] See, for example, the *National City Bank Letter* of October, 1942, pp. 11-12, in which "wage distortions" are measured on an August, 1939, base, resulting in farm wages being considered the greatest "distortion."

[55] Data from the Farm Labor Reports of the Bureau of Agricultural Economics.

[56] On a 1910-14 base, farm wages without board had risen only 73 per cent by July, 1942, compared with the following increases by July, 1942, in average hourly rates: 195 per cent for unskilled road-construction workers, 215 per cent for coal and metal mining, about 260 per cent for union building laborers and for railroad section and extra gang men, and 309 per cent for all wage earners in manufacturing industries. See "Wartime Wages and Manpower in Farming," *Monthly Labor Review*, LV (December, 1942), Table 3, 1117.

The ratio of average farm wages per day without board to average daily earnings of factory workers declined from 87 per cent in 1910 to a low of 30 per cent for 1935, and 1939. In July, 1942, the ratio was 36 per cent.

[57] The state range was from $1.25 to $6.20 a day. Although the average wages for dairy farm labor were higher, the U. S. Employment Service reported orders on hand this fall for dairy workers at wages below $50 a month—even for New England, the middle Atlantic States, and the Midwest.

[58] Farm wages amounted to 9.9 and 21.9 per cent respectively of farmers' gross income and net income in 1938 compared with an estimated 8.3 and 15.3 per cent for 1942. Even if farmers had paid twice as much for their labor in 1942 as the Bureau of Agricultural Economics estimates they will have paid, net farm income in 1942 (after deduction of all production expenses including interest and taxes) would still exceed that of any other years except 1918 and 1919.

[59] "Transitions to the Post-War Agricultural Economy," *Journal of Farm Economics*, Proceedings Number, XXIV (February, 1942), 67.

in unionized plants and industries declined the least.[60] There was, however, little apparent relationship between wage declines and employment in the twenties. A building boom occurred during that decade despite the fact that building wages declined very little after 1920 and were, on a 1914 base, at the highest level for any branch of industry during some years in the twenties. Although average farm wages per day without board fell about 40 per cent or from 79 per cent to 53 per cent of the level of average daily earnings of factory workers, employment on farms during the twenties failed to increase, remaining slightly below the prewar level.[61]

On the basis of the second criterion of employment, it is stated that the maintenance of "high" union rates in bituminous coal from 1920 to 1927 caused union members to suffer severe losses of employment to nonunion enterprise.[62] Although the results of the policy may have been injurious to operators and miners in the union fields, it should be pointed out (1) that the average price of bituminous coal at the mines declined 40 per cent from 1922 to 1927, (2) that coal was a sick industry all over the world after the last war, being displaced by other sources of power, and (3) that, to the extent union wages in bituminous coal stimulated expansion of the nonunion fields and other sources of power, they helped to increase total investment and total employment in the country. In considering wage "distortions," the stimulus to investment and employment from a shift in demand should be overlooked.

Adequate data are not available for a complete and careful examination of occupational and area distortions in the wage structure. As already mentioned, the largest percentage increases in earnings among skilled workmen seem to have occurred in certain crafts in the capital goods industries. The demand for capital goods appears to be inelastic to price changes, and the demand for skilled workmen like tool and die makers, tool designers, and pattern makers, is considered to be very inelastic. Consequently, there may be very little connection or correlation between the wages of such workers and their employment.

The communities that have experienced the largest percentage increases in wage and earnings levels have been war-production and ship-

[60] From the peak in 1920 or 1921 to 1922, average hourly earnings fell by the following percentages: unskilled labor, about 25 per cent; average for all manufacturing workers, about 13 per cent; average for "union" manufacturing and building, about 6 per cent; and bituminous coal, 1 per cent. See Paul Douglas, *Real Wages in the United States, 1890-1926,* 1930, pp. 96, 108, 135, 152, 182.

Between 1920 and 1921, wage rates showed a 14 per cent decline for building laborers compared with an average of 3 per cent for selected skilled building tradesmen, and a decline of 37 per cent for common labor in blast furnaces compared with 4 per cent for molders. See *Monthly Labor Review,* XV (November, 1922), p. 1053.

[61] See *Trends in Employment in Agriculture, 1909-36,* National Research Project, Works Progress Administration Report No. A-8 (November, 1938), p. 11.

[62] Slichter, *Economic Factors Affecting Industrial Relations Policy in National Defense, op. cit.,* p. 67, footnote 2.

building centers.[63] Many of these areas have received government awards for new plants and industrial facilities considerably larger than their proportion of factory output in 1939.[64] The marked change in the distribution of industrial facilities is indicated by the fact that in only 5 of the nation's 33 major industrial areas has the proportion of 13 billion dollars of publicly-financed war plants received by the area exceeded the area's prewar proportion of manufacturing output.[65] In many of the smaller war-production communities, therefore, the volume of plant equipment per worker has increased considerably along with the increase in the level of hourly earnings. To the extent that these war plants are valuable for peacetime production and that the area's labor supply is relatively better trained as a result of war production, it should be possible after the war to maintain most of the new wage differential for the area.

Because of the probable difficulty of converting shipyards to other types of production, communities that have been affected most by the expansion in shipbuilding are likely to be the ones that suffer most from the change to peacetime production. In those areas, some comparative reduction in wage differentials is likely to be forced by unemployment. However, the adjustment should be less difficult this time as the percentage increase in shipbuilding, both compared to prewar rates and to wages in other industries, has been much smaller than during the last war.[66]

There is little evidence that so-called "wage distortions" or maladjustments were a significant factor, tending to retard or reduce total

[63] Such as Norfolk, Virginia, Mobile, Alabama, Buffalo, New York, Wichita, Kansas, Los Angeles, California, and Portland, Maine.

[64] The increase in manufacturing facilities in certain areas is indicated by the fact that the state percentage of all government contracts for plant and industrial equipment (June, 1940-June, 1942) exceeded the state percentage of the country's total manufactures (value added by manufacture in 1939) by 8 times in Utah, by 5 times in Arkansas, by 4 times in Nebraska, by 3½ times in Kansas and Texas, by 3¼ times in Oklahoma, and by 2¾ times in Colorado, Louisiana, and Alabama. Contract data from *The Conference Board Economic Board,* IV (September, 1942), p. 298.

[65] *Ibid.*, p. 300. The importance of these new war plants in the economy is indicated by the estimate that total manufacturing facilities in 1939 amounted to but 40 billion dollars (depreciated book value).

[66] Average hourly earnings rose 47 per cent in shipyards from August, 1939, to October, 1942, compared with increases from 43 to 105 per cent between 1914 and 1917 in straight-time earnings for machinists, blacksmiths, riveters, sheet-metal workers, shipfitters, and labor in private shipyards in various areas. See *Monthly Labor Review,* VI (April, 1918), 917-918.

Between 1914 and 1919, shipyard wage rates were reported to have increased from 212 to 400 per cent for various skilled craftsmen. For source, see National Industrial Conference Board, *Wages and Hours in American Industry,* 1925, p. 25.

Comparisón of average hourly earnings in November, 1939, and average straight-time earnings of day-shift workers in the spring of 1942, indicates the greatest regional advance for shipyards in the Gulf region, where the difference was about 40 per cent for laborers and between 10 and 17 per cent for skilled crafts like machinists, shipfitters, and welders. Based on data supplied by the B.L.S. and in *Monthly Labor Review,* LV (October, 1942), 826.

new investment or total employment in the economy after the last war. With monetary demand likely to be far in excess of available goods and services and a consequent tendency for our price level to rise and industrial operations to be near capacity, the problems of wage adjustment in the first postwar years should certainly be no more difficult than in the twenties,[67] especially if action is taken to reduce the growing discrepancy between wage rates and average hourly earnings. This could be done by lengthening the normal work week and adjusting wage rates so that average hourly earnings were not reduced.

The most important problems after this war will concern international trade, money and finance, and economic planning, including fiscal policy, banking policy, and price and materials control. Through materials control, both price control and investment and production control can be enforced. An important temporary problem will be that of unemployment arising largely out of industrial reconversion and demobilization, which problem is not likely to be affected significantly by the level of wages or by existing wage relationships.

[67] Compared with the early twenties the probable postwar conditions stressed in this paper outweigh the fact that union influence will probably be more widespread and more significant after this war than after World War I.

IMPACT OF THE WAR ON TECHNICAL TRAINING AND OCCUPATIONAL MOBILITY

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Wartime necessity is once again compelling individuals in our society to find new and more efficient ways of using available economic resources. For the first time since 1920 the demand for goods and services has been increased to the point where we would know how to use more materials, plant, and a larger labor force than we possess. As a consequence, those individuals who have been organizing and supervising economic effort have found it necessary to develop a more intensive use of those resources at their disposal. It has been necessary to find workers among those who are not employed in more normal times; to shift semiskilled workers to new industries to be employed on unfamiliar jobs; to find supervisors among those who have not developed the techniques of leadership by the gradual process of acquiring experience over a course of years; and to bring the efforts of all of these workers to a point of maximum skill in the shortest possible time. These have been a part of the total task facing the management of economic enterprise during the past year—a task that will be continued for many months to come.

Solution of the problems listed above has depended upon the prior solution of still other dependent problems. In order to use untrained labor, an infinite number of particular jobs had to be analyzed, described, and broken down into simpler components. So that instruction might be given rapidly to masses of new workers, training schools had to be established and instructors educated to teach proficiency in specialized skills to individuals who never before possessed them. Machinery had to be simplified and the use of machinery extended.

Individuals in our society have faced these problems before. In time of peace the management of privately owned enterprise is motivated—by a desire for income and the hope of profit among other considerations—to organize the employment of human effort, plant, and material resources as efficiently as is deemed desirable in view of the rewards and satisfactions that it is possible to derive from such actions. In the first great war of this century, management was faced with a situation which was substantially identical in many respects. Furthermore, we have been able to witness the procedures of the economic leadership in other nations which have preceded us in the development of a war economy. In view of these things it is to be expected that the impact of wartime necessity upon technical training of workers has

been largely quantitative rather than qualitative since the problems themselves are not unfamiliar.

Changes in the reconstruction, retraining, and shifting of our working population have not been accurately measured in valid statistical terms. It is doubtful if it would be possible to do so, except at prohibitive cost. Those statistical measurements that are available relate to changes that have taken place in certain enterprises, or are so limited in scope that they are not particularly usable except as samples indicative of general change taking place in the nature and position of the working population.

The speaker has taken the industrial worker and supervisor as the central object of attention in discussing the impact of the war on technical training and occupational mobility. Perhaps this represents an oversimplification of the problem being considered, since this limitation excludes important groups of workers engaged in construction and transportation, who presumably are being affected by the war, both in respect to training and mobility. Industrial employees, however, compose the largest single group of workers, and into this group went a full 60 per cent of the total increase in civil nonagricultural employment between October, 1939, and October, 1942, as estimated by the United States Bureau of Labor Statistics. In view of the importance of the industrial worker in our economy and the fact that the speaker is most familiar with recent developments in the training and use of industrial labor, it may be considered desirable to limit the scope of the paper as described, without impairing significantly conclusions that may be drawn concerning the general problems under consideration.

In a review of developments in industry during the past year, one is impressed with the extent to which the job of the industrial worker is being simplified. Job simplification—a technique well and long known to industrial management—has been used widely as a means of offsetting the shortage of skilled workers. In a time of labor shortage the newly employed, the unskilled, and others who must develop new skills may be trained as effective producers most rapidly if they are obliged to acquire proficiency in only a limited number of simple productive operations. In the past year the operations of many enterprises have been extended to include the production of military goods, while other businesses have almost wholly shifted from the production of nonessentials or goods requiring critical materials to the production of munitions. These changes have made it imperative for the supervisory personnel, first, to understand the new jobs to be carried out under their leadership, and, second, to educate both new and old workers to perform such tasks. Therefore, it has been necessary for management to study the jobs to be performed before job simplification could be effected.

Effective job simplification, on a mass basis, requires a complete and formal understanding of the components of the operations being considered. Today, jobs are being defined in formal written form much more commonly than was the case at any time in the past. This job analysis is providing a basic knowledge which enables management to give the new employee a complete description of the task he is to perform. In such formal descriptions every operation is described in detail and in proper sequence. One by-product of this effort by management has been the acquisition of a more complete understanding of how the efforts of workers may be more efficiently used. Possibly this development may be of considerable importance as a factor tending to lower costs over the long term, and may be one of the outstanding continued effects of the present increased effort to simplify jobs. In summarizing, one might say that job simplification has been synchronized with the shortage of trained workers. It has necessitated a widespread analysis of jobs by management. Finally, the enormous demand for munitions has made it possible to employ the techniques of mass production and to further the development and use of single-purpose machinery and tools.

When we entered the war there were few of our industrial enterprises that had developed formal methods for training new workers. Those training schools that did exist in private industry were largely limited in function to the training of salesmen. Industrial skills were almost universally developed by "watch and learn" training methods. By this term we may describe both apprentice training and the usual method of training the semiskilled in which the new recruit is placed in charge of a foreman or gang leader who imparts an understanding of the work on the job by his own rule of thumb means. In many enterprises today, the foremen have been relieved of the training function by the establishment of training schools manned by specialized instructors. This development has made it necessary to train job instructors before new workers could be educated. Furthermore, shifting the location of industrial job training from the factory job to the factory classroom is not possible until the job to be taught has been defined. Therefore, it is apparent that the management of well-managed business enterprise, that has been constrained to expand its working force, and employ workers lacking a knowledge of the particular skills required, has been obliged to simplify jobs and develop new and more efficient techniques for training its labor force. In addition such a management has been under pressure to find ways in which to use workers more efficiently. The functional personnel that has been established to effect the rapid training of workers may be expected to remain as a permanent operating unit being able to produce the efficiencies that result from

the application of specialized supervisory skill. This, we may assume, will tend to make it much easier for a worker to move from one job to another in the future, since the organization will exist to facilitate the adaptation of the worker to a new job at less expense than in former times. Furthermore it may be assumed that the movement of the worker from one job to another will be made easier by the impetus given to the simplification of jobs during the war. It is somewhat illogical to think that industrial management, having been further accustomed to the benefits to be derived from job simplification, will attempt or be able to revive a labor structure in which individual jobs are not as simple as it is practical to make them. Therefore, one may assume that a much larger proportion of the total working population will be engaged at semiskilled work requiring skills which can be quickly and cheaply imparted to the new worker by the facilities existing to train or retrain him.

The task of training semiskilled workers (which must be done generally after it is known what particular operation the worker is to perform and, due to this circumstance, has been an important problem to be faced by the management of private enterprise) has been facilitated by a substantial degree of co-operative effort between government authorities, educators, and industrial management. The National Youth Administration, the War Manpower Commission, the United States Office of Education, the authorities of state agencies and local school districts, and faculty members from various colleges—all have co-operated with the management of private enterprise to establish and operate schools in which new workers are being trained for particular semiskilled tasks, or are even receiving a foundation in the highly developed vocational skills.

The National Youth Administration has concentrated on the pre-employment training of young men and women with the intention of giving them some measure of the specific skills required in war production. The Training-Within-Industry Service of the federal government was reported to have served, by October 1, 1942, 5,750 plants, employing 5,600,000 workers. Foremen and other supervisors totaling 218,000 have been certified as job instructors in war production plants, and in turn these instructors are training many hundreds of thousands of workers.

The costs of the industrial training programs appear to have been partly borne by private enterprise and partly socialized. In some instances the wages of trainees and the buildings and tools used have been supplied by private enterprise, while materials and instruction have been provided by the government. In other cases, public buildings have been used and private industry has provided the instruction.

Some training courses have been devised for the worker who wishes to acquire new skills and who will spend his own time in such a manner. Attendance at other schools, and in general all of those which immediately precede the placement of the worker in actual productive effort, is compulsory for the individual who is to be employed on a specific job.

One important effect of our current effort to give individuals the specialized skills of the mass production industrial worker is that we are introducing a new and important proportion of the population to the discipline of living in organized industrial enterprise. The specialized skill, acquired in gaining proficiency in many of the individual jobs performed in a large industrial plant, may often be transferred to a new job. Over a period of time, the geographical location of specific manufacturing operations must be changed due to the shifting of markets, changes in the source of raw materials, changes related to national defense, changes in technology, and the effects of competition, as well as other reasons. At the present time hundreds of thousands of workers are changing their jobs. Some are being upgraded to assume more responsibility; some are changing from their old job to a more essential occupation, either within the bounds of their own locality or possibly to a geographical location far away from their former homes.

An estimate of the geographical shifting of our population, between April, 1940, and May, 1942, was reported by the National Industrial Conference Board in November. These estimates, derived from data covering sugar-ration registrations, indicated that although the total civilian population of the nation remained virtually unchanged, a net total of somewhere in the neighborhood of two million individuals had moved into twenty-one states. The Office of Price Administration has reported that in the same period of time the populations of thirty-two counties gained almost 1,400,000 civilians. Although many of the individuals numbered in these statistics are not industrial workers, it is safe to assume that a substantial proportion of the migration has been of actual or potential industrial workers. This indicates that under the stress of wartime emergency it has been possible to effect a very substantial geographic shifting of the industrial workers of the nation. It may also be presumed that a great number of those who have moved from one part of the country to another have also changed their occupations to some extent.

The wartime migration of civilians, particularly that of industrial workers, has been given material assistance by the federal government in the form of substantial expenditures for defense housing. It is possible, if this program for providing dwellings for migrating workers had

not been developed, that as large a migration as we have witnessed would not have occurred.

It is logical to assume that, in the postwar period, many of the industrial workers who have migrated to the locale of munitions production will tend either to seek work near their current location or to move to what they will consider a desirable place to live, where employment is available. This may be overstressing a given situation, for the attraction of an individual's native locality is very strong and endures for a long time. This latter statement possibly may be reinforced by a recognition of the fact that many industrial workers who have migrated are living under conditions which would not be acceptable to them in peacetime, especially if there is readjustment in the interrelationship of occupational incomes.

It is probable, however, that the training which individuals are receiving as semiskilled industrial workers, the widespread development of training facilities in private enterprise, the increased use of single-purpose machinery, and the furthering of job simplification, will tend, in combination, to increase the mobility of the working population both within and between localities as well as occupations. This conclusion must be qualified by the statement that labor will remain mobile and fluid as long as a condition of reasonably full employment prevails. If substantial unemployment should once again become an important factor in our economic life, it will be relatively immaterial whether or not industrial labor is mobile, for there will be little necessity for, or utility in, a mobile and fluid working population.

At this point it may be well to comment on the fact that the future mobility of labor, depending on reasonably full employment, is intimately related to the wisdom with which we provide incentives for investment and remove deterrents. If it will be possible to revise our tax structure and philosophy early in the postwar period in order to remove the burden of taxation upon economic activity itself, and to effect some definite connection between the benefits received by the individual from government activity and payments made for the support of such activity—rather than assessing the cost of government according to a consideration of what the traffic will bear—it would appear possible to derive some important degree of national benefit from the occupational training and mobility that the working population is receiving during the war years.

In a consideration of the impact of the war upon the technical training of workers, one must not ignore the changes that are taking place in the training of production supervisors; for the productive efficiency of the semiskilled worker is conditioned by the quality of the supervision which he is given by his immediate superiors. Therefore, just as

the Japanese attack upon Pearl Harbor may be taken as the date of the institution of programs for the mass training of industrial workers in private enterprise, one may also use the same date to mark the beginning of a more widespread acceptance of improved and amplified programs for training supervisors. As in the case of the basic semiskilled industrial worker, the supervisor must be trained to meet the particular needs of a particular organization. These needs vary, depending upon the amount of centralization of managerial control, the products manufactured, the number of people to be trained and the time available for that activity. It is necessary to develop a formal written description of the duties and responsibilities of the supervisor, for if this is not done it is safe to say no commonly accepted understanding exists concerning the nature of the supervisor's position. Not only has it been necessary to provide better supervision, but it has been necessary to effect an increase in the number of supervisors in direct proportion to the increase in workers. Many supervisors have been obtained by upgrading seasoned workers, yet proficiency as a worker does not insure effectiveness as a supervisor. In view of these things, the supervisors training school has gained further acceptance simultaneously with the widespread development of formal job training for industrial workers.

In the past years it has often been stated that the increasing mechanization of industry was bringing about a leveling of skill among industrial workers. This was sometimes stated in a somewhat different form by saying that the craftsman was being superseded by the semiskilled factory workman. Some have interpreted this as being a relegation of the industrial worker to a mere position in a mass—with the industrial worker losing his individuality as an economic producer due to the leveling of skills by the machine, and the use of mass production techniques.

Possibly a less romantic and more objective evaluation of this situation would be to consider that the mechanization of industry, furthered by wartime exigency, the development of facilities for training semiskilled workers, and the creation of a working population, which in a large part has been trained and retrained enough times to develop mobility, will have the effect of increasing the individual's ability to produce a satisfactory income for himself. This statement must be conditioned by the remarks previously made with respect to the future of investment and taxation. Yet it does not seem reasonable to blame the machine, and the development of a highly industrialized economy, for the depressing effects of forces engendered by our political and philosophical rather than economic activity.

It seems more reasonable to assume that a by-product of the war will be a natural furthering of the industrial development of our econ-

omy, and that the further adaptation of the national working force to mechanized production can be of material benefit to the representative industrial worker—provided that the social leadership acts with wisdom.

It appears to be true that job simplification, and the increasing use of single-purpose machinery, tend to produce what may be considered a leveling of skill in industrial occupations, even if the effect may be to increase employment and the average scale of living among other things. Yet industrial workers are individuals and relative distinctions in skill and responsibility are important considerations to individuals in every social group. Those in an industrial organization are not exempt from this condition. In view of this it will be important in the future—since the representative factory will presumably employ a larger proportion of the semiskilled—to establish well-conceived and acceptable systems for classifying jobs and rates of pay, so that internal frictions and dissatisfactions will not impair the productive efficiency of the labor force. This, we may hope, will be an important subject for the supervisor to consider and act upon, now and in the future.

Some consideration must be given to the fact that technical training in industrial pursuits is being given to an increasing number of women. Some industrial operations, where the tools and materials to be handled are light, where manual dexterity and precision are important, provide opportunities for women in which their productive efficiency may exceed that of men. The shortage of men, caused by the fact that the armed forces are composed primarily of males, plus the total labor shortage, has brought about a situation in which women are able to undertake productive operations normally filled by men. This situation has brought to light the utility of women in many industrial occupations for which they never were considered before. This development also has been connected with job simplification. In some instances it has been found that a gang of men and women, in combination on a simplified operation, can produce with greater efficiency than a gang of men alone.

It appears to be probable that many of the women trained for industrial occupations during the war will not be so employed after a substantial number of men are demobilized and the demand for munitions is reduced. It is evident, however, that a considerable number of women will remain in industry. In those cases where it has been found that women are more efficient producers than men, it is reasonable to suppose that a permanent increment to the demand for women workers has been established. Many of the women who have entered industry have found that form of economic life congenial. Some have found the discipline connected with factory work more agreeable than that of the office or store. Others have relished the freedom of an

individual income for the first time. Young women are undertaking the advanced study of chemistry, physics, and engineering in large numbers; and the scientific personnel of industrial enterprise where such a background is essential is providing a fertile field for the employment of these women. The widespread training of women for industrial occupations presumably will have many effects on our social structure of interest to the sociologist. At first glance one might assume that family ties, which have been loosening over the long term, will not be strengthened by the training of women for industry. Possibly the long-term decline in the fertility rate may be extended when a larger proportion of women are independent of a masculine meal ticket.

Another interesting development, rooted in the current shifting of occupation by workers, is the talents that are being discovered and exposed in individuals who, in more normal times, lacked personal aggressiveness or were subject to restrictions which prevented the development or use of their potential abilities. To some extent the changing position of women in industry may be given as an example of such a situation. In the personnel of industrial enterprises, however, there are countless men who for the first time, stimulated by the wartime disturbance of established relationships, have demonstrated an ability to provide leadership and remarkable skill in productive operations which were new to them. It is difficult to judge how important this development is, or will be, in total. Yet this possibly may be a factor of importance, even if unmeasurable, in raising the level of our total productive efficiency.

The development of facilities for training semiskilled industrial workers for particular jobs, thus making it relatively easy to train or retrain individuals for different work, may be expected to cause further change in the use of the apprenticeship method for developing vocational skill. The present demand for skilled workers and the absorption of the eighteen and nineteen year old youths by the military forces, places a premium upon the rapidity with which some part of the skill possessed by a journeyman can be given to an untrained worker—in the same time that the supply of apprentices is being reduced. By force of circumstances, therefore, we appear to be developing means by which the apprenticeship of workers can be shortcircuited, and are accustoming ourselves to using these means. To what extent this development may be reversed after the war is purely conjectural; but it would be surprising if the time-honored but time-consuming apprenticeship method of training is not reduced in importance as an effect of the war. Nevertheless a large number of highly skilled workers of journeyman caliber will be necessary in the postwar economy. As an example we may be confident that the more industry is mechanized

the more skilled machinists and mechanics will be necessary to make and adjust the tools used by the semiskilled worker. Therefore it is not to be expected that the workman with a high degree of skill, the journeyman or craftsman, will disappear; but it does appear uncertain just how he will acquire his skill and what his position in the working population will be.

One of the most interesting developments in past months, which may be considered a rational adjustment of both labor and management to current conditions—and therefore a part of the training of both of these groups—has been the growth of labor-management committees. It is reported that in some enterprises the organization of such committees has been of considerable utility in the development of pertinent suggestions which, when applied, have improved operating efficiency. The work of these committees has been of importance in improving the routing of work, formulating acceptable and efficient schedules when the working time of employees is to be shifted, improving particular techniques in certain operations, developing better methods for adjusting workers to new jobs, etc. Properly established and used, such committees can be of benefit in an industrial enterprise without inhibiting the necessary decision making function of the management. The existence of these committees may be viewed as a salutory development, which may prove to be one of the harbingers of a period of better understanding between labor and management. The future gains of labor must come from more production and more efficient production. The conditions which maximize pay rolls also maximize profits, and pay rolls and profits will continue to move up and down over a period of time together. A period of better understanding between labor and management might provide a cultural medium in which a tax structure more in keeping with the needs of our economy may be erected.

The impact of the war upon the position and use of the industrial worker has produced numerous results. In conclusion we may summarize the preceding comments upon such developments in the following general terms:

1. The wartime demand for industrial workers has made it necessary to simplify further the basic production job, so that a more extensive use may be made of the efforts of women and workers who are not highly skilled, and the output per worker maximized. This in turn has brought about further extensive and intensive use of single-purpose machines and tools.

2. It has been necessary to establish facilities and methods for training or retraining industrial workers on a large-scale basis. This effort has increased managerial knowledge of the basic production job—

which, over the long term, should make it possible to increase the total output of goods and services per unit of human effort.

3. Some important part of the organizations established to train workers may be expected to continue in existence. The skills acquired by semiskilled workers will have transfer value in a mechanized economy. These two conditions in combination may be expected to render industrial labor more mobile and fluid. The utility of this mobility, however, will depend on the success of the social leadership in creating a milieu favoring the investment of savings and the maximizing of employment.

4. The proportion of semiskilled industrial workers to the total working population is growing larger. The unskilled and the highly skilled are becoming a smaller proportion of the total. Presumably these existing trends will be continued.

5. It may be assumed that the situations described above represent a continuation of elements natural to our economic civilization. Furthermore the disturbance of existing relationships by the war is accelerating adaptation by labor and management to the requirements of our more highly mechanized industrial economy. This situation presents the social leadership with a truly great opportunity to increase the national well-being in the future.

DISCUSSION

Boris Shishkin: Projected solutions of the postwar labor problem are likely to suffer from two unavoidable drawbacks. The prognosticators of the dynamics of our victory economy are not only likely to be carried away by the prophetic mood of the moment but are also apt to underestimate the importance of timing of a particular combination of economic and social forces in making that combination valid for the purpose of either postwar forecasting or postwar planning.

The reshaping of our labor force in wartime is necessarily subject to decisions of military strategy. War production and war employment must always fit the controlling pattern of military strategy decisions. This pattern is bound to change and change often with the changing fortunes of war and with the changes dictated by the tactical lessons learned in each successive stage of warfare.

This changing pattern calls not so much for maximum production and maximum labor performance at any given time as it does for sustained optimum production and optimum performance. In other words, the maximum war effort calls for production that is best balanced in terms of the available resources and one that is sufficiently flexible to meet emergency requirements for a particular type of equipment or material. These considerations are of prime importance in evaluating the wartime characteristics of the national labor force, and in any attempt to project such evaluation into the future peacetime economy.

Reshaping of our labor force in peacetime must also be subject to a single strategy of economic reconstruction. The prime objective of our strategy of peace is dictated by the war itself. This objective is economic security for the people. It is security that we seek to achieve after the war which is the key to that freedom from want and fear which we strive to approach. "Full employment" is a means to that end.

Balanced utilization of our labor force to attain security calls for full employment, but full employment in a limited sense. It does not mean retention in our labor force of youth of school age, or of women workers responsible for the rearing of their children, or of aged workers who have reached retirement age. Nor does it mean employment at excessive hours which the war has or may impose, or substandard wages which do not meet the minimum level of the standard of living. Thus our postwar labor force which must be reshaped under the impact of a technological revolution brought on by the war, must meet the test of the strategy of security.

The three papers exploring the problem of the postwar labor force are addressed to the three separate questions: (1) what is the quantitative makeup of our wartime labor force; (2) what is the technological impact of the war on training and occupational mobility of labor; and (3) what are the effects of the war on wages during and after the war? Taken alone these three questions leave much of the ground unexplored. The answers to these questions just presented provide important focal points of both the current thinking and the factual treatment of each phase of the problem. But in each case

many basic considerations have been left out which call for further discussion.

The changing composition of the labor force under war conditions to date and in the foreseeable future will loom important in determining what can be done to avoid the inevitably large measure of frictional unemployment and to achieve a degree of stability in reconverting the labor force from war to civilian employment. Major changes in the composition of the labor force in wartime are (1) industrial, (2) geographic, (3) in age distribution, (4) in sex distribution, and (5) in skill distribution.

These industrial changes in composition are the result of industrial conversion from civilian to war production and of the changing roles played by individual industries under wartime conditions. Curtailment of civilian production and unemployment due to curtailment or outright elimination of establishments because of materials shortages; direct conversion of convertible plants or adaptation and expansion of other plants to make possible participation in war production; concentration programs which placed a dividing line between war and civilian utilization of establishments in a given industry—all these are major factors in the revamping of the framework of our industry as such. Is full or partial reconversion of a given industry likely or desirable to achieve a balanced labor force after the war? What are the permanent or lasting effects of a concentration program on the constituent enterprises in the industry and their share in peacetime production? Changes in labor force industry by industry are yet to be analyzed to provide us with guide-posts for peace.

Geographic shifts in the structure of our labor force have been so far-reaching as to deserve a closer analysis. Surveys made by the American Federation of Labor, by the F. W. Dodge Corporation, and others have yielded revealing data with regard to the population shifts during the past two years. As pointed out by Mr. Stewart, availability of housing and transportation facilities in war production centers may profoundly affect the entire flow of labor migration. The whole question of labor migration in relation to family composition, cost to the workers, and skill distribution also calls for intensive study.

We do have access to substantial data on the changes in age composition of the labor force and are likely to secure a comprehensive picture of the extent of the increase of women workers in our labor force. Our next task in this connection also should be to translate these shifts into terms of balanced employment after the war.

Mr. Wright has treated in some detail the changes in skills and the relative utilization of skills which are taking place. He seems to overemphasize the growing proportion of semiskilled industrial workers to the total working population. Evidence on this point is incomplete and conflicting. It is certain that in plant training, a succession of single-purpose machine operations worked into a balanced training program embodying the elements of the regular apprenticeship, can in time make skilled mechanics out of workers who begin as machine tenders. The profound technological changes which are bound to take place in civilian production as the result of the war

production experience and the amount of retooling that reconversion will necessitate make likely proportionately increased rather than decreased employment of skilled workers in the first years of peacetime production.

Nor is it safe to assume that the increased use of single-purpose machines and job simplification which has taken place will greatly add to the mobility of labor in the initial postwar years. In converting from civilian to war production, vast numbers of simple semiskilled jobs were eliminated. A large proportion of punch presses and stamping machines in the fabrication of metal products for civilian use have gone into discard under the impact of the war. The machine tenders and operators who once manned them were rendered idle until retrained for other jobs in war production. Workers trained on simplified jobs may have lesser rather than greater mobility on the basis of skill. To achieve such mobility within the scope suggested by Mr. Wright may call for an extensive retraining program after the war.

Our discussion has also left out of consideration one of the foremost factors in the entire labor problem after the war: demobilization of armed forces and job placement in industry which would assure employment to the war veterans and at the same time avoid wholesale displacement of workers now in industry without assurance of equivalent employment for them. The peacetime strategy of security calls for advance formulation of a program to solve this difficult problem.

R. W. Stone: Mr. Wright's paper is an excellent factual statement of the ways in which the pressures for war production have increased occupational mobility through job analysis, work simplification, expanded use of single-purpose machines, and improved and expanded job training. Mr. Wright does not state, or perhaps even imply, that these lines of action are revolutionary in character. These developments reflect improvement in methods, but for the most part are only accelerations of established trends.

The war boom recovery to practically full employment has intensified and altered these trends toward greater occupational mobility by: (1) withdrawing several million workers from employment, (2) concentrating work in large, highly mechanized establishments, (3) increasing the proportion of employment in metal working occupations, (4) making speed and quality rather than cost the determining factors in production, and (5), by making it possible for technical experts in job training and work simplification to do a highly effective job of promoting, the application of these procedures on a national scale. Management has been mobilized to facilitate the occupational mobility of workers.

The war experience examined by Mr. Wright demonstrates that workers can quickly be mobilized—that widespread lack of specific skills and technical knowledge is not an insuperable handicap to a rapid increase in the volume of quality production. His analysis, however, presents no evidence as to the money cost of this type of mobilization; the available evidence appears in fact to indicate that this line of mass mobilization has been extraordinarily expensive—more expensive than any peacetime economy could endure.

Again it is a type of occupational mobilization for mass production methods (syncronized operation of single-purpose machines). Will this highly centralized, semimonopolistic type of economic structure prevail in the postwar world or will the small-scale, job-order type of business be revived and expanded? As Mr. Wright indicates, a basic condition of occupational mobility is reasonably full employment. Will the industrial structure carried over from the war period provide reasonably full employment or will it bring "stabilized" unemployment?

Mr. Wright seems to think that there is a considerable degree of transferability of highly specialized job skills. This is a questionable assumption, and entirely contrary to the opinion of most prewar students of vocational training who judged that occupational mobility would be promoted by more general training in the technical knowledge and skills common to families of semiskilled jobs. The special job skills were not deemed to be transferable.

Work is a way of life as well as a source of livelihood. Needless to say, it has not been a satisfactory way of life. Among the major sources of difficulty has been the fact that division of labor has tended more and more to reduce the individual worker to an insignificant role in the production process. Socially, work has become progressively more barren. The war trends described by Mr. Wright have carried this process further. Mr. Wright recognizes this problem, but gives it only passing attention. It must be considered a major problem if occupational mobility is not to produce a progressive social disorganization that will limit and defeat technology.

PRICE CONTROL

PRICE CONTROL: SOME LESSONS FROM THE FIRST PHASE

By J. K. GALBRAITH
Office of Price Administration

I

In the preparation of this paper I faced something of a dilemma. I was tempted to talk of the policies and operations of the Office of Price Administration. But it is rarely indeed that one who is actively responsible for policy making is a good critic of his handiwork. I should like to think myself the exception, but I should dislike to have it discovered—as inevitably it would be—that I am not.

The alternative is not easy. It should be possible to draw from the experience of two years of price administration some of the lessons for price theory and price management which will be of permanent value to the economist. But to do this, there must be opportunity for reflection. Anyone who has been the prisoner of the prices of the United States or the organization which controls them has little such opportunity. The OPA will be a rich source of information and experience on the price economy for a generation to come. But it will take time and detailed reflective work to reduce that experience to orderly form. This paper is a very preliminary essay in relating experience to principle. But at the moment it is also the most satisfactory choice of unsatisfactory alternatives.

II

My first proposition deriving from the experience of the Office of Price Administration is by way of reinforcing a position that has long been taken by progressive economists. It is that fruitful price analysis must emphasize the differentiation between types of market situations rather than the features common to markets as a whole. I believe, indeed, that the impressive depth of the differences between markets and the limited character of the residual of generalization applicable to markets as a whole have even yet been insufficiently stressed. The first approximation to the lines of cleavage is quite clearly that between the competitive market on the one hand and on the other the markets characterized by small numbers and the not unrelated factors of custom, intercorporate community of interest, and the diverse forms of public control or regulation. It is also clear that there is a long gradient between the poles of competition and monopoly with an impressive procession of market types along the grade.

The practical impact of these differences in market organization on

the administration of prices has been very great indeed. Price control in the perfectly competitive market is a matter of classic difficulty. Price control in the imperfectly competitive market is, by comparison, at least, a simple matter, and price administration during the second World War has been simplified beyond the prior calculation of the economists by the extent to which the economy functions at that end of the gradient which is characterized by imperfect competition and monopoly.

The most apparent simplification of the price controller's job in the imperfect market is, of course, the reduction in the number of sellers with whom he must deal. To the extent that imperfect competition is related to oligopoly (without, as in the case of milk distribution or retailing, an offsetting increase in the number of markets) it is relatively easy to come to grips with prices or more particularly with the production cost and profit information for which the price fixer must have regard. The ancient *bête noir* of the price controller—the inflation inherent in bulk-line pricing—tends to disappear for this type of imperfect market, for it lends itself to manageable differential pricing.

There is a less obvious but more important simplication of the price controller's task in the imperfect market. The greater the degree of monopoly (I assume a formal measurement in terms of the inelasticity of the individual seller's demand curve) the greater the likelihood that a system of allocation or rationing will accompany, automatically, the establishment of price control. The point is well illustrated by the different problem presented by price control in virgin as compared with secondary metal markets. The fact of an effective demand in excess of supply proved of little embarrassment in the control of prices of newly mined metals. It was perfectly possible for the relatively few sellers of these metals to allot supplies to their customers and by selecting customers to insure that the metal did not find its way into speculative resale channels. The power to so allocate is essentially the same power which, with increasing degrees of monopoly, provides for an increasing jurisdiction over the level of price. Formal allocation by the government, from the point of view of the price controller, made relatively little difference. In the secondary metal markets the situation was quite the reverse. The far more numerous vendors of secondary metals could not allocate supplies to customers. Did they not charge a price in accord with effective demand, there was the likelihood that some customer or competitor would. No *entente* to hold prices and select customers existed, because in this kind of market none could exist.

In fact, price control in the secondary metal markets generally preceded the institution of formal allocation. To the extent that the effective demand exceeded supply this period was one of a constant trial of

wits between certain branches of the trade (including, as might be expected, users as well as sellers) and the price control agency. When the government put formal allocation into effect for the virgin metals it merely substituted the government's judgment as to where the material should go for unplanned judgment of the individual seller. For the highly competitive secondary industry, on the other hand, allocation was an indispensable adjunct of price control.

Most economists have urged that price control could not long precede rationing, once effective demand had exceeded supply. They have tended to assume, however, that the control of demand was required to reinforce the price controls—that otherwise price control would come athwart the ancient conspiracy of buyer with seller to defeat the price fixer. In the imperfect market this is not the sequence. In these markets, to put the matter baldly, there can be price control in a vacuum and it will work even though effective demand exceeds supply. Formal rationing is necessary, not to reinforce the price controls, but *in the first instance* to substitute social (and better planned) allocation of supplies for what may be the technically efficient allocation of private sellers.

I have illustrated this first proposition with reference to highly oligopolistic markets. It would appear from our experience, however, that the principle holds in lessening degree down through the areas of lessening degree of monopoly. For consumers' commodities price control has largely preceded the institution of rationing controls. It is clear that the establishment of the maximum price during a period of constant supply and increasing effective demand is the warning signal which tells that rationing must come. But even in retail markets the limited supply is likely to be allocated at the fixed prices. Experience has shown the strength of the system of service (*cum* product) differentiation which the retail merchant has built up around his business. It is revealed in the tenacity with which he doles out short supplies to his established customers. The merchant is able to do this by a microscopic form of the same market organization which permitted the steel companies to control the distribution of their output prior to the institution of formal priority control. In the retail consumers goods markets, as in the capital goods markets, *in the first instance* it has been the unplanned (not to say chaotic) character of private allocation, rather than the need to reinforce price controls, which has brought demands for more formal and more equitable allocation by the government.

I have gone far enough to indicate the wide difference in the impact of controls on different types of markets and *pari passu* the differences in the markets themselves. I should like to repeat that I claim no novelty for the thesis that the scope of generalization on the modern market

must be rigorously circumscribed. The experience with price control over the last two years is, however, a watertight confirmation of that thesis. The conclusion for those who believe in the value of generalization (and I am one) is that generalization must follow careful definition of categories of markets. These I suspect are somewhat more numerous than those which set the present framework for price analysis including the framework I am here employing.

III

My next proposition I advance somewhat more tentatively. I believe the experience of the Office of Price Administration has shown that there remains for the economic theorist a difficult but extremely important task of correcting for his underestimate or partial neglect of the time dimension in the analysis of demand and supply relationships. We have been accustomed to think for formal purposes in terms of supply and demand functions with consequences relative to a point of time. Shifts in these functions are related to succeeding points of time. Clearly, however, our demand and supply relationship has identifiable consequences only with reference to a span of time, and this time span is a matter of genuine practical consequence.

To put the matter concretely there is a period of time when, despite increasing effective demand and constant or diminishing supply, all buyers can be satisfied at a perfectly fixed price. This is not a short period which can be dismissed by the convenient formula by which analysis is usually left incomplete; i.e., that is by an allowance for indeterminateness. The period may actually be a very long one—long enough to put a forecast that is right as to direction and amount, badly askew as to timing. The factors in the situation are two: During a period of increasing effective demand price movements appear to be related not to the demand and supply relationship of the moment, but to those of a period well in advance. When this circumstance in turn is related to the stocks in process of manufacture and distribution (which all of the warring powers have discovered are remarkably large relative to current consumer requirements), the result is that maximum prices may be established at market levels, effective demand may continue to grow, and yet shortages may be considerably postponed.

Part of the solution is obviously related to the expectations of buyers and sellers and the relation between demand at the established price and stocks—or more generally, the demand at the established price and the period of production. But that is not all. The degree of imperfection of the market is also an important factor and one that is also relevant to what has just been said. It is a year since the Office of Price Administration forestalled an increase in the price of manufactured tobacco

products and the price in this market has been stable ever since. There is yet no foreseeable likelihood of shortage in these products at going prices. By contrast the price controller's judgment day has already arrived on some very competitively produced agricultural commodities where control was instituted as late as October. But I cite this as an illustration of the problem rather than as a definitive contrast. The underlying analysis is, I believe, relatively simple. Under conditions of imperfect competition the seller will seek to maximize his return with increasing effective demand by advancing his prices. By forestalling the advance, the price control agency is in a position to require him to continue to supply the total demand at the established price, but, of course, at less than optimum returns. Under conditions of pure competition, of course, this latitude does not exist. If one assumes equilibrium at the point where prices are fixed, the shift in the demand curve brings forward no additional supply, since it is implicit in the equilibrium situation that the entire product is being sold.

It has been suggested by the most distinguished and experienced student of the economics and politics of price control that the price fixer lives on borrowed time. Not all of his loan is the tolerance of those whose prices he fixes. Some of his loan is the time lag between the establishment of a given price by the market and the arrival of an equilibrium price such that some would-be buyers at the lower level go unsatisfied. Some of his loan is the difference between maximum monopoly revenue and the level of return which is sustained by larger output at less than the monopoly price.

IV

I am becoming more tentative as I proceed. My next proposition I really state as a problem. I doubt that anyone who has been closely familiar with the work of the Office of Price Administration would doubt the importance of the role of economic analysis in the administration of wartime price control. In the certainty of his approach to the manifold and intricate problems of the price economy under price control, the economist has shown the substantial character of his discipline. The work of the OPA has been an excellent testing ground, however, for the strengths and weaknesses of the structure of formal analysis upon which action has been based. One of the major weaknesses has been shown to be in the analysis of the competitive sellers' market and the imperfectly competitive buyers' market. Important markets—those of agricultural commodities in particular—are characterized by pure competition between the sellers and on the buyers' side by small numbers. To begin with, there is an astonishingly small volume of basic theoretical work on the nature of these markets. A considerable part

of it assumes, one suspects, rather conveniently, that these markets are the obverse of the imperfectly competitive sellers' market. The analysis of small numbers in the sellers' market has been applied by analogy to the market of few buyers. In certain cases, some of them of more importance than I like to admit, the Office of Price Administration has assumed that the analogy is valid. It has been thought sufficient to control resale by the few buyers and thereby control the prices they pay. The practical man has supported the judgment of the economist. In certain instances the results have been as expected. In others it has involved grave disappointment.

If I were to urge one problem upon the postwar economist, it would be that he give greater attention to the problem, through periods of changing demand, of the buyers' monopoly. And if he is a good economist, I would like to urge on him a closely related but larger task—that of analyzing far more effectively than hitherto the problems of vertically interrelated markets. It is through these vertically interrelated markets that the price controller must thread his way. It is in such markets that he derives the least assistance from the established body of economic analysis.

V

My final proposition is more general and follows in part from the first two. It is that the role of price control in the control of inflation is a more strategic one than economists have usually accorded it. Or to put it another way, the economist who becomes a price fixer is a more honorable member of his profession than his colleagues have usually been willing to concede. It is the experience of all of the countries that have organized for the present war that aggregate effective demand runs ahead of the aggregate of available civilian goods. There is every reason to maintain the two in as close a balance as possible—to bend all efforts to minimize the inflationary gap—but there are equally good reasons why the gap will persist. These reasons go quite beyond mere questions of the strength and effectiveness of fiscal policy. Therefore, if control over the price level is to be taken as a desideratum, the strategy of control must involve a two-way move. Along with the controls over the growth of income from the side of taxation and savings there must be direct market controls. On this side the role of price control per se, of the most general sort, is strategic. No more than the economist ever supposed will it stop inflation. But it both establishes the base and gains the time for the measures that do.

Specifically, the price controller makes possible, and in some measure effects, the stablization of income. As a matter of social justice, stabilization of incomes must follow stabilization of the cost of living. This

price control makes possible and it also makes measurable the task of the fiscal authority. These would not be important achievements in the classical market, for they would promptly be followed by disorganized allocation of supplies and the fairly prompt breakdown of the price controls. But the modern market—perhaps I should say the actual market—is capable over important areas of establishing its own system of allocation for a short period. More important, this market provides a period of time—a precious interval between the fixing of prices and the appearance of shortages—when price control is wholly effective. This time interval provides the opportunity for wheeling into place the more durable machinery of systematic allocation and rationing and for extending the supporting fiscal measures. It is important that the rationing authority and the tax authority have this time. It is also important to the price controller that the time interval which he provides be exploited to the full. For in spite of some unforeseen improvements in his act, as a solo performer the price controller cannot last through the play.

RATIONING: A PRAGMATIC PROBLEM FOR ECONOMISTS

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As is true of so many other wartime measures, rationing is relatively without precedent in this country. Similarly, rationers are relatively without experience. The past year has suggested, and the coming year will prove, the type of thinking and training, the type of man, and the type of organization needed to insure successful rationing programs. To date, the contribution of economists has been large—some may say too large—but the economist's value to rationing has depended primarily upon the extent to which he has been able to grapple with problems which, strictly speaking, are beyond the purview of his formal training and which strain the technical apparatus of conventional economic thinking. He has had to deal with operational problems which require full regard for all manner of institutional variations and a due respect for the importance of questions of administrative feasibility and of political expediency.

The scanty literature on rationing now available to economists does not fully recognize this. No economist engaged in rationing has been able to take the time to make the point clear. The only writing done by rationers has been internal memoranda, scribblings on the backs of envelopes, and operating manuals. The nonrationers who have written on the subject have frequently offered fertile suggestions, but, for the most part, their thinking has been consciously abstracted from administrative detail and their intellectual constructions have been far too removed from the particularities of any rationing program to offer much of direct assistance in planning and executing the necessary measures of governmental policy.

Viewed in the large, rationing can be conceived of as a major instrument of wartime economic strategy. It plays a key role in any well-articulated program for such rationalization of industry as may be a wartime necessity. It can be an aggressive weapon designed to serve many purposes other than those of equalizing consumer sacrifice or assuring proper distribution of scarce essentials. Conceivably, it might close the inflationary gap; discussions of general rationing and expenditure rationing have been directed to this problem. It can direct as well as curtail consumption. It can be a conscious method of diverting men and materials from one use to another. It could be used, or should I say abused, to reconstitute the pattern of society by discriminating in favor of one class as against another. It can be the cause, effect, or

supplement of programs of price and production control and of commodity simplification and standardization.

Clearly, it is a necessary component of the economic controls required to facilitate the adjustments from a peace- to a wartime economy. When the abnormal needs of the war machine must take precedence over all else and when the customary market mechanisms cannot be relied upon to accomplish an orderly readjustment, some administrative device must be found to insure against a breakdown of the distributive system. Rationing, if properly integrated with other necessary controls, can achieve this purpose.

Although our vision is probably clouded by distance, giving us an illusion of simplicity and clear-cut direction, still we have ample reason to believe that rationing more nearly approaches the ideal in other countries than in our own. In England, for instance, although the early months of war were fully as haphazard as here, time has permitted an increasingly close integration of policies of production control, concentration of industry, price control, standardization, and rationing. The combination of measures involved in the production, pricing, and distribution of utility clothing is a case in point. Moreover, it is apparent that, in some instances at least, England has used rationing as a positive instrument to curtail consumption and to divert resources, particularly manpower, to other uses. In Germany, rationing was considered so necessary a part of wartime organization that it was completely planned far in advance. All of the necessary documents for rationing were fully designed and printed and stored in vaults before 1936.

In this country, rationing is not the result of such advance planning and does not represent such conscious design—even though many nefarious designs may have been read into it by its critics. Instead it has typically been a hastily conceived stopgap to correct or alleviate threatened breakdowns in particular parts of the distributive machinery whenever they have been caused by other wartime maladjustments, and particular rationing programs have been integrated with other wartime measures only to the extent that time and the give-and-take of the conference table would permit. In simplest terms, whenever it has become apparent that war production would be seriously impeded, or that public morale would be gravely injured by maldistribution, then the decision has been made to ration those products which many consumers would otherwise be unable to obtain. And each rationing program has been related as well as circumstances would permit to the shifting patterns of production and price of the commodities involved. As the operations of any program continue, the detailed interrelations of rationing with price and production controls tend to be clarified, and administratively interlinked. But until emergency situations are met and conquered, the

inception of rationing will continue to be characterized by imperfections of planning and of timing.

That rationing has been piecemeal, and chronically late, is due to a variety of causes: an early emphasis in wartime planning on problems of production rather than of distribution; an inability in many quarters to believe that the vast productive resources of this country would ever be overstrained; a hesitance to introduce as drastic a measure as rationing until every other administrative device has already failed; divided authority, with the decision to ration being in one set of hands and the rationing machinery in another; and finally, a failure to appreciate the time and difficulty involved in planning and establishing a workable rationing program.

One cannot blithely say, "Ration," and presto!—rationing is in effect. Making the decision whether to ration, what to ration, when to ration, and particularly how to ration, and establishing and operating the machinery necessary to emerge from the blueprint stage to the actual launching of the plan is a time-consuming and complicated process. At once it presents a discouragement and a challenge to the economist.

The remainder of this paper will offer, with respect to commodity rationing, a sample of the types of problems which are met by those on the firing line of rationing and a few of the basic principles which must be observed in solving these problems. In no sense is the following definitive or official. It will not offer excursions into the theory of rationing. It will avoid any discussion of alternative methods of rationing which have never been used and of alternative purposes which rationing could conceivably serve. Restricting its scope to some of the purposes, techniques, and problems of rationing as it exists today is not to belie the significance of broader treatments of the problem. In time a theory of rationing will doubtless be developed and be articulated with general economic theory, but until those who will develop it can gain an awareness of the particularities of the rationing problem, such theory will be of dubious significance. Accordingly, this paper is submitted in the hope that by stating some of the daily problems of the rationer, it may contribute to a fuller understanding by economists of the substance of rationing.

The question of *whether* to ration is one which, by hindsight, always appears excessively simple. When the decision must be made as far in advance as is necessary in order to have a rationing program in effect when needed, it is quite another matter. The guiding principles that typically determine the answer are clear: First, is the commodity, or group of commodities, essential? If distribution were uncontrolled, would the attendant dislocations of civilian life seriously impede the

war effort? Second, is the disparity between supply and demand so great or does it threaten to be so great that the distributive mechanism would be likely to suffer a breakdown? Obtaining an answer to either of these two basic questions involves many assumptions as to the consequences of policies which may not yet be clearly formulated and of circumstances which are unpredictable. At best, estimates of future supply are likely to be full of imponderables, and estimates of demand for particular commodities are likewise subject to great question. Inadequate data and inadequate time to obtain needed information are the rule rather than the exception. Value judgments are involved in any decisions as to the essentiality of a commodity, and it is always necessary to decide whether rationing in its total effects will bring more troubles than it cures. A further question affecting the decision to ration, even though it is not made by rationers, is: Can the anticipated difficulty be solved in some other way; that is, are there alternative means by which the supply could be increased or the demand curtailed or distribution regularized and, most important, are such measures likely to be introduced—and, if so, will they work? Finally, will the rationing of a particular commodity serve some other necessary purpose as, for instance, the rationing of gasoline to conserve tire mileage?

The decision *what* to ration likewise is not quite as simple as it might seem. Given a relatively nonsubstitutable, homogeneous commodity such as sugar, coffee, or gasoline, the problem is minor. When dealing with differentiated products or with an entire family of diversified products such as canned goods or meats, the problem becomes much more difficult.

If the primary aim of rationing is to assure as far as possible a fair distribution of scarce essential civilian commodities, not that of implementing price or production controls, the general principle, which is dominated by the necessity of minimizing the administrative burden, is to ration in as restricted a field as possible.

That principle, however, comes into conflict with many other considerations. It may be inequitable and highly discriminatory to consumers and the trade to cover part of a field and omit the rest. It may be impossible, where variation in the products is subject to infinitesimal gradations of quantity and quality, to develop a clear line between that which is rationed and that which is not, or to establish differentiated ration values for classes of the product, and attempts to do so might lead to utter confusion on the part of inexpert buyers. Partial coverage may lead to insupportable pressure to buy substitutes, requiring their rationing. Coverage of some, but not all, end products made of the same materials, or using the same labor and facilities, may create a shift of production from the rationed to the more attractive, less regi-

mented, nonrationed items, aggravating the shortage of the rationed products.

Finally, rationing must of necessity reckon with possibilities which lie far beyond its control and yet can sharply affect the quantity and composition of rationed and nonrationed items. Changes in the fortunes of war, alterations in the pattern of spending, modifications of fiscal policy, shifts in manpower policy, unexpected military requirements, new factors affecting the availability of materials, power and transportation, the development of programs of simplification or standardization—these and many other relevant factors are constantly being affected by the policies of various government agencies. All are determinants of rationing decisions.

The decision *when* to ration is one on which many differences of opinion exist. The strongest arguments seem to favor the position that whenever a careful forecast would indicate that rationing is inevitable, it should be introduced as quickly as possible. This implies, of course, a degree of certainty as to facts which is rarely present. Economic statesmanship would suggest that it is much wiser to be too early than too late because it is always possible, if the situation unexpectedly improves, to increase the liberality of the ration or to withdraw the rationing system entirely. This argument holds that whenever the inevitability of rationing is generally apparent, the distributive mechanism is bound to break down. Members of the trade who are aware of the situation will scramble wildly for scarce goods. Their orders will reach panic proportions when they find their inventories being depleted because they are unable to replace at a rate equal to the rate of sales. If consumers discover the situation, rumors go rampant; hoarding, discriminatory selling, and finally panic buying may follow. The result is intolerable maldistribution of goods among consumers, unbalanced inventories in the trade, and thin uneven trickles of goods through the channels of distribution. If inaugurated under these circumstances, rationing cannot work smoothly. Accordingly, the ideal rationing program should anticipate this situation and introduce rationing well in advance of public awareness of its necessity. However, if rationing is introduced before it is generally understood that it is necessary, there are great dangers that it will not be accepted by the consumers and the trade involved. Accordingly, it is sometimes argued that it might be politically wise to make the harsh decision to wait until rationing is demanded by those who are suffering from the results of an upset, demoralized market. Only in that situation would it be possible to rely on full acceptability of a rationing program. In this connection, it is important to point out that no conscious decision has ever been made by rationing authorities to delay a rationing program merely to insure

its acceptability. No rationing group has yet been sufficiently ahead of its problem to enjoy the luxury of such delay.

The determination of *how* to ration probably involves the greatest technical difficulties. The methods by which commodities or groups of commodities can be rationed must be related to the peculiarities of the problem involved. It is not possible to generalize successfully regarding the techniques which should be used. The pattern of needs for a particular commodity is too complex, and even though many differences must be ignored in the interest of administrative simplicity, each program must be unique in many respects.

Regardless of the type of system selected as most appropriate, the principal criteria of a workable rationing program are clear:

1. It must accomplish its end of insuring the distribution of scarce goods among those who according to wartime standards need them most or, if it is an article of mass consumption, as equitably as possible among all consumers. And it must provide for variations in consumer need.
2. It must offer the minimum interference with other wartime controls.
3. It should dislocate the existing market mechanism, and ordinary civilian life, as little as possible.
4. The rights and duties of all involved in the system must be clearly defined and capable of being understood and followed.
5. The reasons why it is being done must be made clear to everyone and must be acceptable to the general public.
6. It must be flexible to permit adaptation to changing conditions.
7. It must be enforceable. Rather than relying on policing and legal sanctions, it should be self-enforcing as far as possible.

Rationing practitioners frequently discover conflicts among these criteria and in their daily decisions must compromise among them. Accordingly, each program must be designed with an eye to the organization of each particular industry, its channels of distribution, and the variations among consumers' needs. Each may require variations in the type of rationing currency employed, in the amounts issued, and in the means of issuing that currency. Each must be adjusted to the relative scarcity of each product and the degree to which it is substitutable. Each must encounter new administrative problems and place a different degree of burden upon the rationing organization.

It is possible to indicate certain respects in which commodity rationing programs are similar and to classify them into three basic types: certificate rationing, unit rationing, and point rationing. It is to be noted that this classification is based primarily upon the mechanism of issuing and using consumers' rights-to-buy and upon the extent of

control over each consumer transaction; the peculiarities of the problem may require that several of these systems be used simultaneously in the rationing of a particular commodity.

Each system requires the use of some form of rationing "currency"—a certificate or a stamp which is made available in determined quantities to the consumer which becomes his authorization to purchase rationed commodities. This rationing currency must be surrendered to the seller in each transaction and is used by him to replenish his stock from his supplier. Thus, while goods flow downstream through the channels of distribution, the currency (or in ration banking, its equivalent in ration checks) flows upstream to some cut-off point—typically the manufacturer—at which point it is extracted from the system and destroyed.

In contrast to other countries where the currency serves as the manufacturer's authorization to obtain allocations of scarce materials, in this country such allocations are typically determined independently by the production control authorities. This requires that the rationing authorities, in establishing the value of the rationing currency and the total quantity to be issued, must take care that the authorized demand does not exceed the anticipated supply. Accordingly, rationing systems customarily must include provisions for taking physical inventories of all rationed goods on hand at the outset of the program and for obtaining accurate records of subsequent production, shipments, receipts, and sales.

Certificate rationing is the means by which an extremely limited supply of an essential commodity is reserved for the use of those who most need it, while others whose needs or desires are less urgent are excluded from the market. It requires that each consumer purchase be approved by a local rationing authority. It is the method by which tires, automobiles, typewriters, bicycles, rubber boots, and rubber work shoes are now being rationed. Certification is also a feature of several other programs in the sense that special groups of consumers, such as industrial users of sugar, obtain their rationing currency in the form of separate certificates issued by the local authorities who pass on their separate applications.

This is the most costly and administratively the most difficult type of rationing program since each consumer must be dealt with individually each time he wishes to buy. It involves detailed study of all the conceivable uses by individuals of the commodity involved and a gradation of the urgency of their needs. It requires the construction of lists of eligible groups or the establishment of criteria of eligibility by which the need can be determined in each case. Accordingly, it is a method of rationing which can be used only sparingly because an excessive number of applications would place an intolerable burden on the general

public and on the administrative machinery. Nevertheless, any essential commodity, the supply of which is less than enough for even per capita shares for all consumers, or the need for which is limited to particular groups, can be distributed to the right hands only by some such system.

Unit rationing is appropriate for a mass consumption item for which there is no close substitute. Sugar and coffee are commodities that lend themselves primarily to this type of rationing. Here it is possible to distribute enough rationing currency to the entire population to last them for an extended period and to insure equal shares on a per capita basis of a commodity which otherwise might be distributed so unevenly that some consumers would receive none. It is not necessary that all consumers be treated alike under this system; they may be grouped in broad classifications. That is, different quotas may be established according to age, sex, or possibly occupational groupings. The essential feature of unit rationing is that the consumer is given a supply of currency in the form of stamps which he can spend at will during a specified time period for a single commodity, and there is no necessity for individual hearings before local rationing authorities to determine his need before he makes his purchases. Although the administrative burden per transaction is only a fraction of that involved in certificate rationing, the separate unit rationing of mass consumption items should not be recommended if a number of these items can be combined in a point system. A host of separate programs, each with its own regulations, instructions, forms, records, and currency, would be highly undesirable as a matter of administration. However, in every case where a particular shortage threatens and no substitute is available in the event of maldistribution, this technique must be employed.

Point rationing is the method by which large groups of commodities, such as major categories of food or clothing, can be rationed in a single system, so that every consumer has an equal opportunity to obtain scarce goods but retains his freedom of choice among them. In effect, a point rationing system establishes a schedule of values for relatively intersubstitutable commodities which is superimposed on the price system. Each product within a group of similar products may be purchased only upon the surrender of a specified number of point stamps. The point value of each product is determined with reference to the amount of material it contains, its relative scarcity, its essentiality, and the pattern for demand for it compared with other commodities. Each consumer is given a certain quantity of ration stamps to use within a specified time period. Within the limitation of his total points, the consumer has complete freedom of choice as to which product he prefers to buy.

The sum of the total points issued to all consumers must be closely

related to the aggregate point value of the supply of all commodities within that rationed group. In the event that conditions change, the system can be adjusted to a new balance. For example: if total supplies decline or if total expenditures exceed supply, the time period within which the consumer's expenditure is limited to his given points ration can be extended or point values raised. Should supplies increase, the time period can be shortened, all point values may be lowered, or additional stamps may be issued. If a particular commodity becomes relatively scarce through an excess of demand over supply, its point value may be raised. Conversely, if a particular commodity is not being sold as fast as it can be produced, its point value may be lowered.

Since this form of rationing can be used to control large segments of civilian purchases within a single system, it is administratively far preferable to the particularized treatment involved in certificate or unit rationing. It has, however, certain limitations.

If point rationing is introduced at a time when there is great heterogeneity of the products covered, both in variety and in price, serious problems of classification of products, of frozen inventories, and grave possibilities of discrimination among consumers may ensue. Moreover, commodities for which there are no substitutes do not fit well into point rationing. If they are especially scarce there is danger that their entire supply may be maldistributed and exhausted unless there are specific restrictions upon their purchase. Excessively high pointing is an insufficient deterrent to the consumer who most urgently needs such a commodity; since he has a fixed total of points to spend, it merely penalizes him unduly in his other purchases. Finally, it is imperative that point rationing, if it is to operate successfully, be introduced at a time when inventories are fairly well in balance and when supplies are still relatively ample. Otherwise, many of its advantages are lost and an even flow of goods is made impossible.

In working out the details of the rationing system, the economist's problems would be relatively easy if he could rely on given data on supply, if he had full knowledge of all the fundamental facts, and if consumers and the trade were technically minded and kept records of their past actions. His analysis could follow familiar patterns if all purchases were those of an "average" private individual buying a homogeneous product for his own use, from a retailer who was always well stocked, and who was supplied daily by an independent wholesaler, who in turn bought from a manufacturer.

Unfortunately, this is not the case. The rationer must work with fragmentary data, full of omissions and subject to change. Much of the information he needs is simply not known; and he must tread lightly in devising forms and reports that will fill in some of the informational

gaps. Most of all, he must build his system in such a way as to take care of all possible variations of the product, in market practice, and in consumer need.

The following questions will illustrate the types of problems which plague the rationer daily. As will be seen, they do not lend themselves to neat groupings by topic—a fact which may suggest some of the intricate interdependency of the rationer's problem.

What are the implications to changing patterns of demand, to the composition of production, and to the balance of existing inventories of setting point values per dollar as against setting them per unit of the rationed item?

How can the point value of a finished product be related back to its raw material components when there are wide variations in size, quality, design, and material content?

How can point values be changed for commodities in process of manufacture or on order without discrimination in favor of buyer or seller? And how can records of the point value of inventories be kept accurate if point values change?

Once the basic ration is determined for individuals, how shall an estimate be made as to the volume of stamps which will be unused by low income groups or by those who do not desire to buy the particular commodity?

To what extent should stamps be transferable among individuals? What are the implications of transferability within the family to the establishment of different ration values of the same stamp by age or sex? How far is it feasible to go in permitting transferability without encouraging black market operations?

What means can be devised under rationing to fill the needs of those for whom the basic ration is inadequate? In clothing, for instance, what arrangements can be made for the growing child, the expectant mother, the industrial worker who needs special protective equipment, some of which he buys and some of which is provided by his employer? What treatment should be given to those who wear uniforms—to members of the armed services who must buy their own uniforms, to members of private organizations who may be uniformed, such as the Red Cross, Boy Scouts, or civilian defense organizations? What about religious habits, nurses' uniforms, costumes of fraternal lodges, waitress' uniforms, or even academic robes?

What provision should be made so that rationed commodities can be made available to members, residents, or inmates of correctional or charitable institutions, to patients in hospitals, public and private, or to industrial consumers?

Should secondhand sales, repairs, or rentals be rationed, and how?

Since the purpose of using ration currency is to create a self-enforcing scheme by which the seller's incentive to collect currency arises from the value of that currency to him as the means of obtaining replacements, how can this purpose be served in the case of concerns which are partially or totally integrated?

How is the upstream flow of currency to be arranged in the cases of imports for resale, of private imports by consumers, or in the case of the custom-manufacturer who retails from the same premises? What is the role remaining to the broker, to the contractor-out, to the resident buyer?

How can the consumer's right to the stamp he spends be verified when he buys by mail order, by telephone?

What should the policy be on defective merchandise bought and sold in good faith, on returns or "policy adjustments" of stores? How can a stamp be returned when a mail order cannot be filled?

What allowances should be made for sampling, wear-testing, pilferage, or shrinkage of inventory?

If dead inventories develop because of changes in the pattern of demand under rationing and the goods would deteriorate unless sold, how can they be released?

What policy should be followed as to the opening of new outlets? How can they be stocked? Who should determine the initial inventory they need to enter into business and how? What provisions should be made to increase the inventory of concerns with expanding sales?

How can the seller replenish his stock when he does not collect ration stamps from exempt buyers, or for exports, if he loses his currency or goods through fire or theft?

What kind of allotment of rationed goods and what kinds of controls over sales should be exercised in the case of manufacturers using rationed commodities to make unrationed goods for resale?

What provision can be made in a system which withdraws rationing currency at the primary producer's level if some primary producers have no permanent place of business but are constantly traveling from one section of the country to another?

Given a straight percentage cut from the previous year in the production of a raw material, how can that be translated to the retail and consumer levels when not more than a quarter of the retailers have records of their past receipts and sales of the end products?

If ration currency must be received by a supplier before he can ship, how can we avoid paralyzing the operations of the manufacturer and all intermediate distributors while stamps are being accumulated by the retailer? If an initial allowance of currency is to be granted the retailer to prime the pump, how should the amount of that allowance

be determined? Should it be related to size of inventory, rate of sales, stock-sales ratio, volume of unfilled orders, or what? How can it be determined in the absence of records? How can it fail to discriminate among types of retailers?

Those and hosts of similar questions are the daily fare of the rationer. To answer many of them economic reasoning is essential. To work them out, however, and to translate them into effective techniques, the economist must surround himself with many other types of minds. The experience and training of a well-diversified group must be added to and integrated with his own.

The development of a workable rationing program requires not only the economist but individuals from the trade versed in all the institutional peculiarities of each market; commodity experts who are aware of all the variations in the product and in its uses; lawyers who can examine the legal implications, the constitutionality, and the enforceability of any proposed measure; men with a flair for administration who can organize and execute rationing programs through a tremendous decentralized administrative machinery which must reach out over the entire country; persons with a sense of public psychology who can anticipate consumer and trade reactions and who can help explain the why and how of rationing programs to all concerned; consumer experts who know the pattern of spending and can advise on all the variations of needs of the entire population; statisticians and research men who can make sound judgments on the basis of inconclusive but suggestive data; and experts in systems who can design administrative and operating forms and records and devise the techniques which will facilitate the complicated operations of a rationing program.

The preceding discussion will, I hope, suggest something of the scope and variety of the problems which face the rationing practitioner as he establishes working standards and develops techniques for the fair distribution of essential commodities. Rationing is admittedly an emergency procedure—clumsy and costly of human effort. The fact remains, however, that no workable alternatives for the protection of civilians from inequality of sacrifice in a war economy have yet gained acceptance. Effective solution of the manifold problems posed by rationing offers a challenge to the ingenuity and practical wisdom of the economist—and makes him approach the task with humility.

DISCUSSION

JULES BACKMAN: Dr. Gettell's paper is the most comprehensive portrayal of the rationing problem which has come to my attention. It is a valuable addition to the scanty literature to which he refers. My comments shall be confined to four phases of this problem.

Changing Structure of Ration Group. Instead of changing the ration, total consumption of designated products can be affected by altering the number of items or varieties covered but leaving the ration unchanged. This device has been used in England for bacon, meat, preserves, and points foods. Thus, in September, 1941, although the bacon ration remained unchanged, cooked boneless streaky bacon and cooked boneless belly bacon were derationed "to permit the more rapid distribution of accumulated supplies of these types." The preserves ration remained unchanged at one pound every four weeks, but mincemeat, fruit curd, imitation honey, and imported honey, which initially were ration free, were later added to the ration group. This technique was also used on several occasions for meat to offset temporary shortages or surpluses. For example, canned corned meats were included in the ration group from December, 1941, to April, 1942, to take the place of fresh carcass meat, the supply of which had declined; the total ration remained unchanged at twenty-three cents per week.[1]

This technique is useful mainly where there are many qualities, types, or grades of the rationed product or where a group of products is rationed together and a temporary surplus or shortage develops. Thus, when meats are rationed, if supplies increase, one type or special cuts might be made ration free instead of increasing the total ration. Conversely, if supplies are curtailed, meat could be redefined to include liver, fowl, or other "off the ration" items. Such a procedure would be especially useful if the consumption pattern was such that increased supplies would be purchased by only a small part of the population anyway. Thus, everyone would obtain the basic minimum ration with the surplus supply distributed "off the ration." If the available supplies were reduced, the amount consumed off the ration would be reduced or possibly eliminated—but the basic ration would remain intact.

Moreover, in some instances the inclusion of certain items in a family of products may unduly complicate the problem of rationing because they may not be fully comparable to other items in the group (e.g., neck bones in a meat group). If these items account for a relatively small proportion of the total supply, the ration group could be defined in such a way as to exclude them and thus avoid undue complications. I have called this technique "changing structure of the ration group" and believe that it deserves considerable study as a device to be added to the administrator's tool chest.

Registration with Retailer. Consumers should be required to register with a retailer for their supplies of most rationed products. However, they should be

[1] For other illustrations, see my "Details of Food Rationing in Great Britain," *Foreign Information Series No. 7,* Office of Price Administration (mimeographed), August, 1942, pp. 1-4, 6-7, 24-25, 31-35.

permitted to register with different retailers for each product and be permitted to change their registration every six months. The retailer's supply is then determined by the number of registered customers multiplied by the permitted ration. The retailer in turn registers with a wholesaler. This system has several advantages. It makes possible a closer adjustment between supply and demand and reduces the amounts tied up in inventories. Not only is supply and demand brought into closer balance in each store but also in each community. New registrations are the signal for an immediate shift in the flow of supplies toward the community in which they take place. This is very important in connection with perishable products as there would usually be no surplus available to meet such increases in demand—especially in towns with war plants. The result is a surplus as compared with ration coupons in the area losing population and a deficit in the area gaining population. While in time an adjustment would take place under any ration system, it seems likely that the period of adjustment could be reduced substantially if registration were required. It would also reduce the dissatisfaction in both communities—in the one because there is an apparent surplus above the ration and in the other because all ration coupons may not be honored.

Moreover, it can perform a vital role in preventing the evasion of price controls. Although the imposition of rationing without registration would reduce the extent of these evasions, they could be reduced still further if registration were adopted. In many cases today, the retailer is threatened with having his supplies cut off if he fails to pay the wholesaler more than the ceiling price—in cash, of course. The retailer then passes this increased cost on to the consumer with the same "take it or leave it" attitude. This has been particularly true of butchers in New York City in recent weeks. The wholesaler, too, has had to pay above ceiling prices in many instances. If registration for rationed products (except those on the point system) were required, this type of evasion could be stopped, at least for the products rationed. The wholesaler who failed to supply a registered retailer would have to show cause if he had received the supplies himself. Similarly, the retailer could not insist upon receiving a premium price without explaining to his local board what happened to the allotment he had received. Of course, some evasion would still take place as each dealer tried to secure desirable qualities or higher profit lines, but this would be but a fraction of the present evasion. This is particularly important in connection with butchers and is an argument for the quantity rather than point rationing under which registration is undesirable if consumers are to have much freedom of choice.

It may be suggested that such registration unduly restricts the choice of consumers and restricts the freedom to shop. But today in New York and in other communities as well we are registered *de facto*. This becomes quickly evident if you try to buy meat, butter, or any other good in short supply in a strange store.

Uniform Ration Periods. The currency of ration coupons should be for identical periods for each food product. Different ration periods mean the need to remember different terminal dates and frequently coupons are not used in time. Why not use one-week periods for perishables and four-week

periods for other food products? Now, a sugar coupon is good for a month and a half and coffee for five weeks. Why not use a four-week period for each? Moreover, make each coupon for the same product usable for uniform periods. Sugar coupons have had a currency ranging from two weeks to ten weeks and now are about six and one-half weeks. To increase flexibility, the use of coupons beyond the terminal date should be permitted. A person is entitled to the ration and presumably there are supplies available to meet his demand. What difference does it make if it is used one month or the next—except for perishables?

Point Rationing. The point system is an especially useful device to ration complementary and heterogeneous goods which cannot be divided equally and which are bought occasionally (e.g., clothing) and groups of goods which are partly complementary and to some degree substitutable (e.g., canned and packaged foods). However, the question may be raised as to whether it is the most useful rationing mechanism to apply to goods which are substantially substitutable (e.g., meats). I raise this question because the literature released by OPA has been emphasizing that the items included in a point system should be "interchangeable."[2]

Wherever possible, goods which are completely or substantially substitutable should have equal point values or the consumer will demand those with the lowest point values in order to acquire the largest possible number of units of the product. Fine, say the rationing officials, that is exactly what we want —concentration of demand on these lower pointed (hence surplus) products. But this means one of two things: (1) If consumers are given a sufficient number of points to cover both the scarce and plentiful products available, those who come first can secure larger quantities while those shopping later may be compelled to use their coupons for smaller amounts of the higher pointed products. There is no way in which each customer can be compelled to take similar proportions of shortage items as part of the ration. One result, therefore, may be queues to secure the desirable low pointed goods. (2) Alternatively, the total number of points made available to consumers may be limited to the amount that would just about cover the relatively low pointed items to ensure everyone of a share in them. However, such a restriction would unnecessarily reduce the total volume of food available to consumers.

Where the "interchangeable" products are part of a large group combined under the ration—as in the case of canned and packaged foods—the above factors may not be too significant. But if the ration group is confined largely to interchangeable items then these considerations become significant. Meat is a case in point. For this product, the total points held by consumers should be about equal to supplies available to butchers within the designated periods

[2] The second set of questions and answers released by OPA explaining the point system for processed foods included the following: "Q. Are jellies and marmalades included? A. No. These are not generally used interchangeably with canned fruits." Similarly, in Leon Henderson's statement announcing the program, it was pointed out that "these products are largely interchangeable as far as their use is concerned." Perhaps this concept explains the exclusion of some scarce products (e.g., canned fish and condensed milk) from the list of processed foods announced for rationing under the point system.

of time or consumption would be unnecessarily reduced or some spoilage develop. The substitutability of various cuts would probably lead to early morning queues to obtain the maximum quantity of desirable low pointed cuts after consumers learn how the system operates. The late-comer, just as today, would be forced to accept smaller quantities unless the butcher were to limit the quantity of low pointed items to each customer. (If it is assumed that he will do this, then it may also be assumed that he would do the same in connection with cuts in short supply under a quantity ration.)

If the point values were based on nutrition value of the various cuts or the bone or fat content, this result would not be serious as each customer would receive relatively the same food value or net meat content. But these cannot be the sole criteria of point values if the system is also to guide consumption. And OPA has pointed out: "Low point values will be given to foods that are relatively plentiful; high point values to those that are most scarce. The buyer can get more for his points by buying the foods with the low point value."[3] As between cuts from the same animal, it would be impossible to point them so as to equate for differences in bone and fat content and at the same time to influence consumption. If the latter objective is sought then the argument that the point system permits adjustment for bone and fat content while the quantity ration does not, falls to the ground. The major criticism against a quantity ration for meat is that the cuts vary in proportion to fat and bone content and hence there would be queues to obtain the leaner cuts, quality cuts, or those in short supply. As the above brief analysis has indicated, the points system does not fully overcome these disadvantages.

It would also be virtually impossible to ensure that each store or shopping area received the same proportion of high and low pointed cuts and hence there would be different quantities of meat available for consumption in each area. Under these circumstances, there would be an inducement on the part of the wholesaler to demand above ceiling prices for desirable low pointed items and for the butcher and consumer to pay them because of the greater volume of business and greater quantity available for consumption respectively.

Under the point system, uniform point values for products throughout the country are also bound to create difficulties because of geographical differences in consumption patterns. Shortages of specified items in some areas may be accompanied by undisclosed surpluses in others with consumers in the latter areas unnecessarily penalized in their consumption if point values are increased even though supplies are available. This problem would arise in any markets supplied by local rather than national slaughterers since in the latter case a greater degree of fluidity of movement of supplies prevails. A similar problem could be expected to arise in connection with the rationing of processed foods.

When two alternative methods of rationing are available, the simpler method should always be adopted unless the more complex one has an overwhelming burden of evidence in its favor. While meat could undoubtedly be

[3] New York *Times*, January 5, 1942.

rationed successfully by a point system, it is doubtful in light of the previous comments that it will be substantially more equitable and effective than the quantity ration. Under these circumstances, it would appear to be more desirable to use the simpler quantity ration (with consumer registration) and thus avoid the complexities of pointing as well as the burdening of consumers with a complicated rationing system.[4] To overcome in part the important disadvantages of a quantity ration, some adjustment might be made for cuts with excessive bone and fat content and butchers should be encouraged to distribute cuts in short supply equitably among their customers. A nation-wide education campaign could be instituted to accomplish this latter objective.

W. ALLEN WALLIS: Not having seen the manuscripts in advance, I should like simply to make a few very general remarks on the subject of price control and rationing. To avoid misunderstanding, let me make it clear at the outset that many of the people in OPA are able and admirable; in fact, some of my best friends work for OPA.

There has been remarkably little coherent criticism of the OPA, but there is a vast amount of just plain bellyaching or griping. In fact, I doubt whether many of you here in Washington realize how very bitterly and widely the OPA is despised. This bitter hatred, incidentally, is a factor to be reckoned with, not only in relation to wartime morale, but much more seriously in relation to postwar problems. People now hate the Nazis and the Japs so much more than they hate the OPA that there is no real problem. But after the war, I venture to predict, the whole structure of OPA and every vestige of economic control will be swept away, lock, stock, and personnel, in a blind flood of resentment. Since OPA activities so far have for the most part only postponed (and enlarged) the problem of inflation, such a sudden and total abolition of economic regulation may well have tragic consequences of the first magnitude.

Now what causes this hatred of the OPA? The OPA in defending itself always assumes—though perhaps not quite disingenuously—that the resentment is really resentment of wartime scarcities, or that it is resentment of government regulation as such. Actually, not 10 per cent of the criticism is of this character; nearly all of it is resentment of the particular way OPA and its officials have gone about their business.

OPA has adopted a procedure that involves its participation, overtly or covertly, in all the technical and organizational details of millions of enterprises. To bring about necessary wartime readjustments efficiently under its scheme of operation requires knowing more about each firm—more about its plant, its machines, its sources of materials, its labor, its markets, and so on—than is known by those who have made livings for years by knowing such matters in minute and thorough detail. Those in the business, instead of straining their accumulated knowledge, skill, ingenuity, and resourcefulness

[4] Quantity rations are used in other countries except Great Britain which has an expenditure ration for meat. Sweden has worked out a scheme which makes allowance for bone and fat content. The mechanics of that plan should be carefully investigated by the OPA.

toward facilitating efficient readjustment, devote all their energies to persuading or "educating" OPA officials that it is impossible. This tendency was illustrated by an advertisement in the New York *Times* last spring offering for $7.00 a month to keep businessmen abreast of OPA; one prominent feature was the latest information on "how to appeal effectively to OPA officials."

The businessman's antagonism is personalized. He does not run into the kind of business problem he has met before; he runs into an economist, a lawyer, or an administrator who does not talk his language. The unhappy official, however competent, is sure to reveal himself ignorant of some minute and petty detail of business practice, from which the businessman jumps to the conclusion that his orders are incompetent, irrelevant, and immaterial.

A workable approach to OPA problems would be to regulate the economic environment in such a way that businessmen will exert all of their technical and managerial skill toward devising ways to further the war effort. The objective should be to channel rigidly the resourcefulness of American business, not to dam it up for the duration. To put the point in more general terms, the necessary wartime control should be achieved, not by putting an enormous staff to work participating directly in the millions of economic decisions and actions that occur daily, but by setting up a general economic environment in which each individual in every transaction has a clear indication of where the national interest lies and at the same time has an almost compulsory incentive to act accordingly.

Now a mechanism for this kind of control is already established and functioning; namely, the price mechanism. By intelligent manipulation of this mechanism businessmen could be led to select that line of activity at which they could produce the most—this being measured by the urgency of the need and by the availability of other suppliers—and to produce it with the least use of critical materials.

Incidentally, I am told that the Germans have recently abandoned the price control program inaugurated in 1936—of which our OPA is a very close copy—and are now switching to a price and profit technique. Since the survival of the United Nations in 1940 and 1941 is attributable largely to German bungling, stupidity, and colossal inefficiency, we may well be grateful that they did not revise their economic program earlier. There is reason to hope that it may now be too late.

Regulating the economy through the price mechanism is a process in which economists could be useful, as contrasted with the present OPA procedure, which requires administrators, lawyers, and technicians, none of whom has much appreciation of the general over-all economic implications of his work. As an illustration of the kind of thing that could be done, consider the problem of rationing consumers goods and controlling their prices.

The present crazyquilt method involves a very personalized form of control; it is a form of regulation based on direct meddling. One has to explain to local commissioners just why he needs ten pounds of sugar extra, and he may have to explain to numerous snoopers on the roads why he is driving his car.

At the same time, large quantities of sugar are being virtually wasted by those whose needs fall short of the ration, and sizable amounts of gasoline and rubber are going to waste. The supply of meat available for consumption has often fluctuated as much as it has during the past six months; yet never within the memory of the oldest person present have there been such gross inequalities in its distribution geographically.

Any number of sensible ways can be devised for accomplishing the objectives the OPA seeks—that is, economizing of scarce goods and stabilizing the price level—without the inefficiencies and bureaucracy of OPA. An excellent review of some of these schemes was given by de Scitovsky in the August *Review of Economic Statistics.* I regret that there is not time now to discuss any of these in specific terms, but I have recently given in the *American Economic Review* a rather condensed statement of the way a progressive spending tax could handle the problem.

In conclusion I should like to make one further remark. Defenders of OPA are inclined to fall back on political arguments. Now it is true, I believe, that the kind of thing OPA is doing to meet its problems is exactly the kind of thing the man in the street would think of—if he did not put much thought on the problem and if he knew no economics. "If prices are going up, prohibit it," he would say. "If goods are scarce, everybody line up and we'll ladle them out." But when the price-control bill was before Congress, no such simple view was taken. Indeed, it was only with the greatest reluctance that the bill was passed after months of discussion, and it was clear that almost any workable alternative would have been preferred. As it was, the bill got through only after OPA officials had argued that no great exercise of its powers would be necessary, as the country could easily have all the butter *and* guns it wanted, price control being needed only at a few bottlenecks. During the period the bill was pending, some individuals in OPA opposed measures to control the inflationary gap, denying that there really was one; though the bill was hardly passed before they proclaimed the impotence of price control unsupplemented by control of general purchasing power. There is no reason from this record to suppose that the economists of OPA are any better judges of political feasibility than of economic feasibility; and there is reason to hope that their economic recommendations would be sounder if based only on economic considerations, leaving general policy considerations to the responsible political officials.

DIFFERENTIAL PRICING IN NONFERROUS METALS

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The purpose of this paper is to describe the present use of differential pricing in the wartime regulation of three important nonferrous metals, i.e., copper, lead, and zinc, and to suggest certain problems that have arisen which may be of interest to members of the Association.

Initial Steps in Price Control. Due to price instability in an area of large importance to a wartime economy, certain of the principal nonferrous metals were early selected by the Office of Price Administration and its predecessor agencies[2] for regulation. During the late summer and autumn of 1940 informal conferences with industry representatives led to a voluntary stabilization of the price of copper at 12 cents[3] and zinc at 7¼ cents[4] per pound. Subsequently, in the spring of 1941 lead was stabilized at a price of 5.85 cents per pound.[5] In October, 1941, and January, 1942, the prices of zinc and lead were advanced by 1 cent and .65 cents per pound respectively, due to accumulated cost increases and to substantial differences in cost between increments of mine output. These early actions involved the establishment of a single price for each metal (with due allowance for customary differences in price between grades) and the adoption of prevailing industry practices with respect to basing point and delivered pricing systems which had developed in the industries concerned.

As the pressure of demand for each of the metals increased sharply, it became apparent that the continuance of a single-price system would produce highly inflationary consequences. Moreover, the demand for materials so essential to a war economy is highly inelastic, and it appeared improbable that material price increases could "choke off" demand to any appreciable extent. The physical limitations associated with supply were too serious, especially in copper and zinc, to make it at all possible fully to satisfy the necessary demand of government and of private industry for these essential metals. At the same time it was recognized that the maximum level of production permitted by physical factors would require resort to submarginal ores far too costly to be produced at the ceiling price. In other words, costs rise rapidly in these extractive industries with material increases in total output.[6]

[1] While the author is a member of the Office of Price Administration this discussion is not a statement of the views of that Office. The author is indebted to Mr. Frederick Holder for valuable advice and assistance.

[2] The National Defense Advisory Commission and later the Office of Price Administration and Civilian Supply.

[3] Delivered, the Connecticut Valley.

[4] For "prime western" grade, f.o.b. East St. Louis.

[5] Common lead, at New York.

[6] Differences exist among the three metals as to the proportions of total output ordinarily coming from a few large low-cost mines, with relatively constant costs per unit of output. As output increases, resort is necessarily had to higher-cost properties, many of which are submarginal at a "low" level. Moreover, in some mines, both large and small, the grade of ore is "tapering" to such a degree that, at a higher price, the output of the mine is capable of significant expansion.

Policy Alternatives. The OPA was confronted with two alternative lines of policy: The continuance of the usual single-price method of regulation would necessarily bring about very great increases in price in order to tap the most submarginal sources of ore which could be produced under existing or prospective shortages of material and manpower. An alternative policy was to develop some method or methods by which price could be differentiated between more and less costly sources of production.

The first, or single-price, policy could not well be of a "bulk-line" sort under which price would be high enough to cover the cost of, say, 80 per cent to 85 per cent of the total output. One deficiency of a bulk-line method of pricing in the mining area is that cost differences between various increments of supply are due essentially to physical factors, such as those relating to differences in the grade of ore, location relative to transportation and labor supply, and to differences in geologic formation affecting the costs of mining. Especially where government policy requires maximum production, a bulk-line principle, which may well operate to curtail output by ignoring such cost differences, is subject to serious objection.[7]

If, on the other hand, a single price is geared to the most expensive sources of supply which are needed, the cost to the government as a principal purchaser of metal, as well as to the community, will necessarily be extremely high and will tend constantly to rise as better grades of ore are exhausted or as the price of productive factors, notably labor, increase. Over-all increases in metal prices also tend to behave in snowball fashion. This is due not only to practices in the industry which tie cost levels to price through formal contracts and informal practices but also to the effects of high profits on wage levels under collective bargaining. A further disadvantage of a rising single-price level is its adverse inflationary effects through the pyramiding of costs.

Consequently, the OPA soon turned to the use of pricing policies which would recognize cost differences between various portions of desired output while maintaining stability in the market price of metals. The first efforts in this direction involved the establishment of cost-plus contracts between the Metals Reserve Company[8] and high-cost copper producers, principally in the upper Michigan peninsula. In these cases the Metals Reserve Company has resold the metal at the regular or "ceiling" price. As the problem of metal production became more acute the issue was whether greatly to extend the use of the cost-plus device or to develop other means of differential pricing.

The widespread extension of cost-plus contracts was subject to serious economic and administrative objections. While space does not permit a discussion of these, it may be pointed out that among the economic objections were: (1) the risk of encouraging wasteful production methods, and (2) the repercussional effects of cost-plus arrangements upon general cost levels. The latter point may be illustrated by reference to the effects of this policy in shipbuilding and elsewhere upon the level of wages in other branches of

[7] In manufacturing industry generally, the operation of bulk-line pricing is in a setting where inherent cost differences between increments of supply are probably less great than in mining.

[8] A subsidiary of the Reconstruction Finance Corporation.

industry. On the administrative side, the careful use of cost-plus contracts is tedious and time consuming. For example, there are at present some 1,500 mines which produce zinc, usually in conjunction with other metals. Most of these are essentially high-cost sources of supply, and the negotiation of contracts on a cost-plus basis was not believed to be a method that could be widely employed without serious delay.[9]

The Premium Price Plan. The policy developed and jointly announced by the OPA, WPB, and MRC in January, 1942, is commonly referred to as the Premium Price Plan.[10] In essence, it involves the establishment of production quotas for each property or group of properties in each of the three metals produced by that property. For production in excess of such quotas, premia are paid by the MRC.[11] The quotas are established at levels which represent approximately the output which, it is estimated, can reasonably be produced by the mining companies at the regular ceiling price for each metal. Premium payments are made by the Metals Reserve Company directly for overquota mine production. The ores or ore concentrates continue to be sold by mining companies to smelting companies at market prices which do not reflect such premia. The market price of *metal,* therefore, remains unaffected by the operation of the Plan.

Quotas by Mines or by Companies? The Premium Price Plan recognizes cost differences and the marginal principle of pricing under which companies tend to judge the output of a particular mine or even a portion of the output of that mine from the standpoint of whether the additional revenue to be received will adequately compensate for the additional costs incurred. Whatever the merits of the marginal calculus, its application seems particularly realistic in an industry such as mining where costs differ widely and where production planning can be geared to any one of the innumerable levels of output. A crucial question that had to be determined at the outset was whether quotas should be set for the over-all production of a company which operates a number of mines scattered in various parts of the country or should be set for particular mines or groups of mines. A logical case could be made for either arrangement. On behalf of over-all company quotas, it may be argued that if the quota is accurately set, it becomes unprofitable for a company, at the expense of total production, to shift its productive resources between high- and low-cost output or between different mining properties; to collect a premium, a company must increase its over-all production of metal. Theoretically, a quota set for a particular mine or group of mines does not insure that a company may not discontinue or diminish output in certain low-cost operations and transfer

[9] Moreover, in many cases, variations in the grade of ore within a given property are such that maximum production would require special arrangements with respect to properties generally regarded as above the margin.

[10] Official descriptions of the Plan are contained in press releases FLA-641, issued January 12, 1942; PM 2160, January 13, 1942; PM 2458, February, 1942; and MRC Release dated March 7, 1942.

[11] To stimulate longer range planning the effective period of the plan was initially set at 2½ years and has since been extended 1 year, the present date of expiration being July 31, 1945, subject to termination and adjustment by MRC in the event of prior cessation of hostilities.

its activities to other properties, perhaps of poorer grade, where it will be able to collect as much, if not more, premium money.[12] The other side of the case is that an over-all company quota places the enterpriser in the position of having the dollar and cents result of any particular mining venture contingent not only upon the given operation but also on the ability of the company elsewhere to maintain a full level of quota production. Thus the risks attendant upon operations in a particular property become associated not only with conditions there but conditions elsewhere in the company's operations. Moreover, administratively speaking, it seems more practicable to deal with quotas case by case rather than to review and adjust an over-all quota covering perhaps twenty or thirty properties each time a situation develops in a particular property which might seem to require additional premium payments. A further consideration weighing against the "company quota" policy is psychological. Individual mine managers and personnel may work more effectively in relation to an official quota established with respect to "their" mine, than in relation to an over-all company quota, or a hypothetical quota set for them by the home office.

For these above and related reasons, quotas are fixed for mines and groups of mines rather than with respect to over-all company operations.

Criteria in the Establishment of Individual Quotas. A major economic problem in the administration of the Premium Price Plan is and will continue to be the development and application of criteria appropriate to the establishment and revision of individual quotas. Under the "rules" of the Plan, quotas may be revised downward and in certain circumstances combined as between properties, but in no case may they be revised upward to a level greater than the quota initially established.[13] While the establishment of quotas has been carried on for less than a year's time, it is already apparent that the selection and application of criteria must in large measure be developed pragmatically. This is not to say that certain principles do not become clear as experience develops.

In general, the issues have centered around two problems: first, the determination of costs that have been and may be encountered in a particular mining project, and second, the determination of an adequate profit margin above such costs.[14]

In the estimation of costs a number of questions have arisen and from them a few are selected for comment here:

1. Experience is demonstrating that cost estimates must allow in many cases for a substantial development expense in order that mining enterprises will be able and willing to push rapidly the development of ore reserves. Some

[12] A further purpose of such action, of course, would be to conserve low-cost ore reserves for the future. To guard against these possibilities it is provided in the Premium Price Plan that in the case of a company with two or more properties, should the production of any single property show a material decrease below its quota, the MRC, after hearing, may combine the separate quotas into a single quota.

[13] The reason for this is to give assurance to mine operators that the government will not later establish quotas more unfavorable to the company than were initially determined. Such assurance is necessary if a full measure of expansion of mine operation under the Plan is to be obtained.

[14] From the outset it was recognized that if production were to be aided by the Plan, it would be necessary generally to allow some profit margin above estimated costs.

development work is often called for with respect to ore bodies that in "normal" times would be decidedly submarginal and hence must be amortized over a comparatively short period of time. Moreover, the current rate of mine production in some cases is so great that the maintenance of ore reserves to insure the continuance of production a few months or years later calls for the crowding of developmental activity to such a degree that its costs become abnormally high. The administration of the Premium Price Plan attempts to allow for these considerations in the establishment and revision of the quotas.

2. The inclusion or exclusion of costs of depletion of existing ore reserves raises a highly difficult question of mine valuation which cannot be solved with precision in the time available during the present emergency. Nevertheless, it is clear that the extent to which depletion is allowed for should turn largely around the extent to which the ore reserves under exploitation are what would generally be considered submarginal. Certainly it is not appropriate to compensate for depletion of historical investment if in fact the ore bodies have little or no value in a peacetime market.

3. A similar question arises in the case of the amortization of any capital investments in new mining or milling equipment. Generally, it is not the purpose of the Premium Price Plan to provide funds for the amortization of capital investment. At the same time, cases arise in which it is clear that additional investment, directly related to the marginal operations under consideration and often involving comparatively minor but essential physical assets, must be made in connection with properties which will have little, if any, value after the present conflict. Where this is the case, it is frequently necessary that such investment either be amortized rapidly under the Premium Price Plan or that the investment funds be provided directly by the government. Both policies are employed to some extent and the choice between them is in some measure governed by considerations of administrative expediency.

The approach to a determination of profit margins above costs must be similarly pragmatic. It is, however, both necessary and practicable to recognize certain elements which will influence the level of estimated profits per ton of ore or ore concentrates for which allowance may be made. In the mining industry profits are closely associated with the risks obtaining in highly uncertain ventures. Analysis demonstrates, however, that certain types of projects are much more affected by uncertainties than are others. In some districts and types of geologic formations costs are more predictable than in others; the size of ore reserves are subject to more careful estimate; the possibilities of flood or other physical contingencies are greater; and ore grades are more uniform and less subject to erratic variation.

The measurement of cost factors and profit margins is difficult at best. When it must be done quickly and without benefit of long experience on the part of the government agencies concerned, the inherent difficulties of the case are multiplied manyfold.[15] Experience in the development and application of criteria with respect to both costs and profit margins, however, is making it possible to arrive at increasingly precise determinations. Beginning with a

[15] It must not be forgotten, of course, that many of these same difficulties are present in the intelligent administration of *any* price control policy in the mining industry.

staff of mining engineers widely familiar with different mining districts, supplementing their experience and judgment with data obtained directly from companies for whom quotas are being determined, and giving increasing attention to a breakdown of the factors involved in different types of situations, an essentially pragmatic approach is being followed with considerable success.

At the same time, anyone having contact with the development and administration of the Premium Price Plan cannot help but be more sympathetic with the circumstances which have doubtless led the Supreme Court in matters of rate regulation to refuse over many years to single out any particular standard for the determination of such matters as the "rate of return" and "fair value."

The Inflation Aspect. If the government were the sole and direct purchaser of metal, the analysis of the fiscal aspects of the Premium Price Plan as they relate to inflation could be brief. A policy of monopsonistic buying clearly operates to reduce government expenditures and tends to minimize the volume of credit created through deficit financing. A problem arises, however, to the extent that private consumption of metal continues and the government in considerable measure buys final products rather than metal itself.

Since in large measure the government purchases metal products rather than metal as such, it is benefited by a stabilization of the ceiling price of metal inasmuch as a so-called "pyramiding" of costs is eliminated. The extent of this saving to the government is impossible to estimate and is contingent upon the efficiency of government buying of final products as well as upon other considerations.

Insofar as private consumption of metal and metal products continues, it might be argued that the Premium Price Plan is inflationary in its consequences. The analysis would run as follows: The government, in order to pay for high-cost mine production, borrows money and hence creates additional purchasing power, thereby subsidizing private consumption which occurs at a lower buying price. A full evaluation of this line of argument would be a paper in itself. Certain factors that would have to be taken account of are as follows: (1) The government is increasingly becoming the major purchaser of metal.[16] (2) Private consumers do not use low-cost metal as such and it is impossible to determine what proportion of high-cost production should properly be assigned to so-called "essential" civilian consumption as against government consumption.[17] (3) An increasing metal price in the areas of private consumption has much the same inflationary consequences, through its repercussional effects on wages and profits, as does any other price increase.[18]

On balance it is certainly correct to conclude that the Plan is decidedly

[16] It is not appropriate to cite the particular proportions of metal supply now going for government account. Suffice it to say that current estimates indicate that by far the greater proportion of copper production is going directly or indirectly for government use; the majority of zinc production is likewise directly or indirectly for government account; and a considerable proportion of the lead supply.

[17] Since, with the severe curtailment that has already taken place in metal consumption through government order, it is incorrect to assume that a reduction in metal supply would be wholly at the expense of private consumption.

[18] Hence the problem is partly the general question of whether price regulation is in fact anti-inflationary.

anti-inflationary in its consequences. A quantitative estimate of the gains in this direction, however, is fraught with the greatest difficulty, as it involves a consideration of the extent to which cost pyramiding would occur with an unstable metal price, corporate tax offsets, and similar hypothetical factors.

The Premium Price Plan as an Incentive Arrangement. The Plan is an incentive method of pricing in the same sense that any price which is established on the assumption that profit should be permitted the producer is an incentive policy. Quotas are established and revised with reference to estimates of the costs that will be encountered in connection with all or portions of the output of the mine in question. The allowance of a profit margin above such estimated costs is thus an incentive arrangement, but only in the same sense that a single price which is high enough to permit some profits above cost is an incentive arrangement. Price differentiation in this case, however, does recognize the wide cost differences that may exist between different portions of the supply and assumes that it is not wise to expect producers to bring out submarginal materials at a loss or at a price which covers merely the direct expenses of mining. Similar factors doubtless have led Congress to exempt premium payments from the excess profits provisions of the Revenue Act of 1942.[19]

The Plan is not an incentive device in the sense that it is intended to confer lavish rewards. Moreover, it is not the purpose of the Plan to guarantee that costs will be covered. Quotas are not revised in order to compensate producers for losses previously incurred.

Thus, the Plan differs from a straight cost-plus arrangement in two respects: (1) it does not insure that mine operators will not, in fact, lose if expenses prove to be higher than those estimated; (2) it does not provide that any economies below estimated costs will be automatically passed on to the account of the government.[20]

Subsidy? The Premium Price Plan is a case of monopsonistic buying with the government acting as monopsonist. While the government does not buy directly or indirectly all of the copper, zinc, and lead produced, it nevertheless through the War Production Board has not only severely curtailed private uses of these metals and their products but determines what amount of metal may be used for particular purposes. At the same time, the government through OPA has determined the price which may be paid by private users of metal. In the realities of the case, therefore, the government is in effect a monopsonistic buyer of the three metals.[21]

[19] The Act provides that bonus income, retroactive to taxable years beginning after December 31, 1940, received by mining companies from a federal agency for production in excess of quotas is exempt from excess profits taxes if specified conditions are met. The Act also permits a special deduction from adjusted excess profits net income to mining companies whose current production exceeds average annual output during the period 1936-39 by as much as 5 per cent of estimated reserves. If nontaxable bonus income is included in nontaxable income from exempt excess output, the taxpayer may elect which credit to take.

[20] Of course, cost estimates that have proved to be too high may lead subsequently to an upward revision of quotas not to exceed the quotas initially established.

[21] Even though in the case of the Premium Price Plan *premia* are paid on over-quota production without the government electing to take title to the concentrates or ores on which such premia are paid.

In the operation of the quota system there appear to be two levels of price, i.e., the ceiling price (translated into a price for ores and concentrates) and a premium payment in addition to the ceiling price for over-quota production (i.e., premia paid on such production even though the MRC does not elect to take title). In fact, however, there are not two prices but a number of average prices for the output of different mines, dependent on the proportions between quota and overquota production. In examining the case of a particular property, the government, after taking due account of the estimated cost-revenue situation, determines a quota. After the determination of the quota, a mine, while receiving premium payments as well as the ordinary market price for its output, is receiving an average price for its production which may be anywhere between the ceiling price as a minimum and the ceiling price plus the premium as a maximum. In effect, therefore, the government through the Premium Price Plan tends to estimate the cost situation of the property in question and to relate premium payments to such costs.[22]

Thus, under the Premium Price Plan a monopsonistic buyer differentiates between the cost of different increments of supply. The procedure is not dissimilar from that of a monopolistic seller who chooses to sell a product at different prices in different portions of his market.

Whether under this situation it is appropriate to state that the Premium Price Plan involves government subsidy turns largely on a none too useful discussion of what is meant by "subsidy." Certainly, if the government were the sole user of metal, it could not be regarded as a subsidy in any sense. The issue arises only to the extent that private consumers of metal may secure at the regular ceiling price metal which is made from ores produced partly from overquota mine production. However, through the activities of OPA in keeping down the price of metal products and through the operations of the price adjustment boards and the excess profits tax provisions of the corporate tax structure, there are substantial offsets to any gains otherwise accruing to private users.

[22] The above is a generalization which does not necessarily hold in each particular case or type of case.

PRICE CONTROL IN THE MACHINERY INDUSTRIES[1]

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The problems encountered in the control of machinery prices are, in many ways, unique. These problems arise from the characteristics of the products and the conditions under which they are manufactured and sold.

The products are distinguished by their number and variety. Literally hundreds of thousands of machines and machinery parts fall within the jurisdiction of the Machinery Branch of the Office of Price Administration. Machines range in size, engineering detail, and use from delicate measuring instruments to 500-ton locomotives; parts vary from the minute products of screw machines to heavy forgings and castings. Within each class of machines are many varieties. Standardization may be found within a single manufacturer's products but these are usually differentiated among producers. To a considerable extent the machines are made to customers' specifications. The specifications may, and often do, change from order to order. In certain cases no single unit of manufacture is precisely similar to another. An example is the production of heat exchangers which are built into a larger structure whose characteristics are seldom the same from job to job.

Furthermore, several different types of industrial organizations produce these articles. Large integrated concerns like the Ford Motor Company make some of them. Others are produced through the co-operative efforts of a highly decentralized group of producers standing in the position of subcontractors to a holder of prime contracts whose principal manufacturing services are those of assembly. Some of these prime contractors have made arrangements with as many as 2,000 subcontractors, from whom an uninterrupted volume of parts and subassemblies must come. This is obviously a very sensitive type of business organization. A poorly drawn price regulation could produce endless confusion and might easily disrupt the flow of goods. Then, there is a host of small producers, the so-called "alley shops," also to be counted among the "clients" of the Machinery Branch.

Sales practices introduce other complications. Published prices mean very little in certain parts of this field. List prices for certain types of leather belting, for instance, have not been changed for years. There are, often, many classifications of customers, each class with its own special scale of discounts from list. Especially designed products, on the other hand, can have no list prices with "applicable discounts." They are priced on the basis of anticipated costs, the competitive situation, and the many other considerations which enter into the pricing of a "special" product.

The need for expansion must also be considered. The machinery industry

[1] In the twelve months since Joel Dean's "Direct Control of Machinery Prices," *Harvard Business Review*, Spring, 1942, the area of machinery price control has been much extended and Maximum Price Regulations have been employed instead of the informal arrangements which characterized the Executive Order era. This article, like Mr. Dean's, draws heavily upon operating experience and exchanged ideas within the Machinery Brance of the Office of Price Administration, but is by no means an official document.

has been, during the past three years, a rapidly growing one. The estimated dollar value of products—6.7 billion for 1940 and 13.1 billion for 1942[2]—is evidence of the adjustment which has been made to the expanded demands of a war economy. This has placed another requirement on any program of price control: it must be such as to encourage expansion and permit a maximum conversion to the production of war goods.

In view of these characteristics of the industry it is not surprising that machinery manufacturers have advised that efforts at price stabilization be confined to other products such as eggs or pig iron.

Nevertheless, the Office of Price Administration entered this complex field of machinery production with a program of price control. The controls necessarily have been imperfect in view of the conditions which have been enumerated. There are, however, tangible evidences of accomplishment. The curve of machine tool prices—one of the few machinery products for which the Bureau of Labor Statistics publishes an index—rose from 100 in August, 1939, to 118 in October, 1941. At this date Maximum Price Regulation No. 67 was issued. The index has remained at 118 since the issuance of that regulation.[3] The Bureau of Labor Statistics has ceased the monthly publication of the index in view of its stability, and now collects and publishes the data only on a quarterly basis. Stabilization of machine tool prices has produced savings in the neighborhood of 100 million dollars during 1942.

Indices are also available which show the movement of farm equipment prices. There has been an increase of 6½ per cent in three years. When this moderate increase is compared with the 74 per cent rise during the last war, a saving of approximately 230 million dollars is indicated for American agriculture.

Although dollars and cents savings are by no means the only rewards of inflation control, they alone would seem to justify the effort which has been made to control prices in this complex field.

Not less than six distinguishable methods of price control have been used to accomplish these results. These can be grouped into three general classifications. They are: (1) the historical commodity price freeze; (2) the administratively determined dollars and cents price ceiling; and (3) formula pricing. There are, also, various combinations of these three.

The historical commodity price freeze has been applied to the products of the machinery industry insofar as they have been standardized and have list prices in effect on a certain base date. These prices, usually those prevailing on October 1, 1941, with their "applicable extra charges, discounts and other allowances"[4] become the legal maxima not to be exceeded in later transactions. Price stability has been brought to a large group of machines and machinery products by this method. A single manufacturer, for example, with a 1,200 page catalog containing price quotations on each page, may find that each of these prices, with the discounts in effect on the base period, has been given

[2] Not over 10 per cent of this increase should be attributed to price changes.

[3] It is recognized that index numbers of prices during periods of price control may suggest greater price stability than actually exists on the market.

[4] Section 1390.5, Maximum Price Regulation No. 136, As Amended.

the status of a legal maximum for his future sales. The result is a separate set of maximum prices for each of the producers of a given product. This is an individual firm type of freeze since the maxima are those prices in effect for each manufacturer.

The historical commodity price freeze method has given rise to the following situations and problems: (a) Manufacturers were not in equal position with respect to price on the base date of the freeze. This has led to complaints from small, closely knit industries, where uniform pricing has, unfortunately, been the rule. (b) Certain prices on a manufacturer's list on the base date are found to be "out-of-line." In this situation profits margins are much wider on some products than on others. On an expanding market the opportunity cost principle has threatened to bring about a concentration of production on the items with large profits at the expense of the narrow margin lines. (c) Manufacturers with relatively low prices on the base date, or manufacturers in defense areas where wage rates have risen rapidly, have felt the squeeze and have been obliged to come to the Office of Price Administration for relief. (d) This historical price freeze is clearly not applicable to new products or nonstandardized products made to specification.

The historical commodity price freeze is the general pricing method which was used on a broad scale in the General Maximum Price Regulation covering prices at retail, wholesale and not a few factory prices. The problems which have appeared in the Machinery Branch have characterized general OPA experience with the General Maximum Price Regulation.

The second method, that of the administratively determined maximum price, is a method of price control according to which the Office of Price Administration attempts to establish either (a) a single bulk-line price for a given commodity, high enough to call forth the marginal supply, which shall be the legal maximum for all sellers, or (b) administratively determined differential prices. When there is differential pricing, the Office of Price Administration fixes a maximum price below that which would be arrived at according to the bulk-line principle. Marginal producers may receive a higher price under certain conditions, or may be paid a direct subsidy.

The first of these two versions of the administratively determined maximum dollars and cents price, i.e., a price on the bulk-line principle, has been used in controlling the rentals of machines[5] and the sales of secondhand machines.[6] It has not been used at the manufacturers' level because of the differentiation of products as among producers and because it could at best apply only to a small portion of the coverage.

In any case, the method is subject to the criticism that a bulk-line price is higher than is necessary to call forth most of the output. The individual firm type price freeze is, on these grounds, a better inflation control. It must be recognized, however, that the single administratively determined dollar and cents price is much easier to administer.

The second version of the administratively fixed dollar and cents price,

[5] Maximum Price Regulation No. 134, As Amended.
[6] Price Schedule No. 1, As Amended.

differential pricing, does not suffer from the outstanding defect of the bulk-line price and has been used with excellent results by the Office of Price Administration. Unfortunately, the differentiated products of the machinery industry have made its use impossible in this field.

A combination of the historical commodity price freeze and differential pricing has been used, however, to accomplish desired results not directly related to price control. Farm equipment, rebuilt and guaranteed by dealers, is permitted to sell up to 95 per cent of list. Equipment sold without rebuilding or a guarantee has a lower ceiling.[7] The obvious purpose is to encourage thorough rebuilding so that the equipment on the farms will be kept in such satisfactory operating condition as to make unnecessary the manufacture of large quantities of new equipment. The same combination of methods—the historical commodity price freeze and differential pricing—will be found in other machinery regulations.[8] Another type of differential pricing has been used to encourage automobile dealers to maintain stockpile cars in new condition.[9]

The two general methods—the historical commodity price freeze and the administratively determined dollars and cents maximum price—have one important common characteristic: they establish legal maxima which cannot be changed except on appeal to the Office of Price Administration.

Formula pricing—the third general class of price control methods—has been used extensively by the Machinery Branch because of the lack of standardization of products in the machinery industry.

Formula pricing follows three patterns which may be called: (1) the "standard product reference" method; (2) the "margin freeze" method; and (3) the "factor price freeze" method.

Formula pricing is useful in pricing modified standard machinery products and specials. Modified standard products may be defined as those which have a near counterpart with an established maximum price. Specials are products built to specifications or new products which are not modified standard products.

If the product over which price control is to be placed is a modified standard product the manufacturer is required to list the differences between the new product to be priced and the standard product which has an established maximum price, and show the cost changes which are attributable to each engineering change. These costs are then reviewed by the Office of Price Administration and the price of the modified standard product is established on the basis of the cost differentials. This price then becomes the legal maximum.

This standard product reference method has been used with reasonably satisfactory results in the pricing of machine tools.[10] There is, of course, always the question as to whether the product is really a modified standard or a special, to which a different formula method should be applied. It is nec-

[7] Maximum Price Regulation No. 133, Amendment No. 3, 8 F.R. 235.
[8] Price Schedule No. 1, As Amended; Maximum Price Regulation No. 136, As Amended.
[9] Price Schedule No. 85, As Revised.
[10] Price Schedule No. 67, As Amended.

essary, also, for the Office of Price Administration to sit in review of cost comparisons, which are often difficult to appraise. Finally, the manufacturer often complains of the reports he must make and the delays involved in processing such cases in the Office.

The margin freeze formula type price control is used mainly in arriving at maximum prices of nonstandard and new machinery products at wholesale and retail. It usually takes the form of permitting the distributor to compute his selling price on the basis of the manufacturer's or wholesaler's legal maximum price to him, plus a frozen distributor's margin.[11]

In the field of distribution of machinery and machinery parts, the principal problem in using this method is the determination of the margin which should be frozen. Margins differ from product to product and the typical mill or mining supply house or machinery distributor carries hundreds of different products. In spite of this difficulty this is the method employed in M.P.R. No. 136 to control the prices of products for which the distributor had no base date price in effect. For standard products with prices in effect on the base date, at retail and wholesale, the historical price freeze method is used.

The factor price freeze method of price control is applied widely in the machinery field to control the pricing of specials.[12] The factor price freeze method is quite satisfactory in its theoretical aspects but difficulties are encountered in the administration of this type of price control. The theoretical concepts and the form which the factor price freeze takes will be considered first.

Here the objective is not to fix firm prices which will be legal maxima but is rather to control the price at which the elements of the cost of production enter the cost accounting processes of industry. Thus, instead of establishing a single maximum price on an automatic valve assembly the manufacturer is given freedom to compute his own price using the pricing method employed on the base period, but in the computation he must, according to the factor price freeze formula, enter the labor rates at their base date level, usually October 1, 1941, or March 31, 1942; the raw material at its base date price and overhead costs at their base date rates.

The concept is, briefly that inflation cannot come to an economy if prices of products are based upon stabilized prices of the factors of production.

It will be noted that the phrase "prices of the factors" of production rather than "cost of production" has been used. Cost of production is a function of two variables: rate and quantity. Labor cost, for instance, depends upon the dollar rate paid labor and the quantity, that is, man hours, of labor required to perform the operation. Material costs are determined by the price per foot, pound, or ton of the goods used and the quantity of the materials consumed in fabrication.

This type of formula pricing attempts to bring stability into the price situation by holding constant the labor rate but not the man hours; the price of material but not the quantity; the overhead rate but not the dollar

[11] Sec. 1390.10 (c), Maximum Price Regulation No. 136.
[12] Sec. 1390.7, Maximum Price Regulation No. 136.

and cents quantity of overhead. The elements of cost are held constant on the costing sheets; the purpose is to approximate, by formula, the commodity price which would have prevailed on the base date had the "special" been produced at that time under the then existing factor prices.

It is clear that formula pricing by this method permits flexibility in final selling prices. That is, prices of products may rise or fall as technology changes; when new types of material are substituted for old; or when stand-by equipment is pressed into service. It does not permit price increases because of increases in the prices of the factors held constant: wage rates, materials prices, and overhead expense.

In the Machinery Regulation, M.P.R. No. 136, the manufacturer is required to recompute the formula price for each new order. In its ideal application, therefore, any change in the final price of the product will reflect improvements or deteriorations in technical efficiency in the use of labor, tools, or materials; changes in the types or quantities of the material employed; or any dollars and cents changes in the overhead which fluctuations in such direct costs may produce.

The factor price freeze type of formula pricing has the great advantage of permitting price changes which are in the order of the price changes which would take place under the circumstances of a neutral money. Certainly the concept of a stable price level which secures its stability from the absolute rigidity imposed on individual prices by a price freeze or an administratively determined single price is not the kind of price level stability contemplated by economists. Not a few of the difficulties of maintaining a general price freeze result from this type of rigidity.

The maintenance of price stability by control of the factor prices seems more satisfactory on theoretical grounds than the attempt to find stability by freezing the prices of end products in a rigid manner.

Needless to add, difficulties appear when any attempt is made to stabilize the prices at which factors of production enter the cost sheet, when, because of the competition for labor or other reasons, it is deemed necessary or desirable to raise wage rates above their base date level. The squeeze is on the manufacturer who must use the earlier and lower wage rates in computing prices. Wage stabilization should prevent the threatened crisis because of wage rate pressures. When material prices increase—as they do sometimes, even though they are under effective price control—the squeeze appears again. Or, when the flow of production is interrupted by material scarcities and the distribution of overhead expenses per unit of product consequently tends to increase the manufacturer is held to the old rate which may have been established under more favorable conditions of material supply.

However, squeezes cannot be avoided when an attempt is made to curb such inflationary forces as are loose in the United States today. The ability to withstand the squeeze has come partly from the increases in the volume of output which has resulted in an overabsorption of overhead rather than the opposite. The profits of enterprise have, by and large, been adequate to stand the pressure of rising labor and material prices without serious consequences.

We are, and must continue to be, greatly concerned over the squeeze, however, when it threatens to disrupt the flow of production. This likelihood most frequently appears in the machinery industry where expanded production is carried on with the aid of a large number of subcontractors. The business organization from which machinery products flow is a factor in the problem, as has been suggested. The subcontractors customarily produce totally or partially completed parts and subassemblies. Under formula pricing the allowable price of such parts and subassemblies may change from time to time, or, if new suppliers are needed, they may very likely come into production with allowable costs and prices higher than those charged by previous suppliers. There cannot be the uniformity of price among producers of parts and subassemblies, each with his own type of equipment which has probably been adapted from another use, as is found among manufacturers employing more standardized methods and equipment to make such products as steel, copper, or aluminum.

The expansion of subcontracting introduced serious and complex problems of price control. If the prime contractor is required to enter on his cost sheet the price paid for such parts and subassemblies to another supplier on some previous base date, he may not prefer to expand his subcontracting system with the cost absorption that expansion might entail. On the other hand, the subcontractor who feels the pressure from the prime contractor to keep his prices down, even when his allowable costs under a formula increase, may decide to seek a new outlet for his production and so interrupt the flow of vital parts.

When an industry is decentralized through the use of subcontractors there is no such "command and obey" relationship as is among the departments of one integrated enterprise. Relationships between prime and subcontractors are at the level of "offer and acceptance" and if the price offered the subcontractor is too low, he may well change his connection. At this level, price is still a controlling factor in the distribution of industrial energy.

The Office of Price Administration has scrupulously attempted to avoid any retardation of the productive process. What then should be done in such circumstances as these, under formula prices? Because the machinery regulations relate intimately to a considerable volume of war production, it was decided to permit the prime contractor to enter on his cost sheet the actual prices of the parts and subassemblies which he purchased from others. These others, it will be remembered, are also subject to price control. This, then, is another allowable fluctuation which may be translated into the final price.

The problems of administration presented by formula prices are great, as must be apparent. The Office of Price Administration, in spite of any reasonable reporting system which can be set up, cannot determine whether a given price increase is within the limits set by the regulation without an audit of costs. This is time consuming and must, at best, be on a sampling basis.

Formula pricing provisions are, in their simplest description, detailed

and extensive. They are not easy to understand and busy, small volume producers, especially, frequently do not take the time necessary to master the pricing rules. In a word, the regulations become complex.

Pricing by formula is new to many producers. They may, in fact, customarily price with but little thought of costs. Where the effective demand exceeds the supply, prices well in excess of costs can be charged and received. Under more normal conditions the convenience of introducing the new product into the production line, the desirability of the account and the price at which competitors will sell and other factors affecting the bargaining position of the parties have more to do with prices in intermediate and short periods than do costs in the machinery industry. It is hoping for a great deal to expect pricing habits of long standing to be changed by regulation.

Finally, buyers of machinery are on the whole well-educated purchasing agents. They can be expected to police rigid dollar and cents price ceilings but cannot know whether a given price increase under a formula is really justified or not. The evidence is in the confidential records of the seller.

Of the three general classifications of methods of price control—the historical commodity price freeze, the administratively determined dollars and cents price ceiling, and formula pricing—the first two are most easily policed and administered. Partly because the prices fixed by these methods are artificially rigid, however, powerful forces generate under them to force their change. Prices determined by formula, on the other hand, are automatically adapted to technological and certain other types of change. The pressures do not develop under such prices to the same degree. Formula prices are most difficult to police, however, and the control is doubtless less tight than under rigidly fixed legal maximum prices.

In the field of machinery specials, and this is to a considerable extent the field of war machinery production, formula pricing is extensively used as a means of price control. It is, probably, the best method under the circumstances. What is lost in the form of tight, rigid price control is gained in control flexibility where it is most needed to further the war effort.

THE PRICING OF COPPER AND COPPER ALLOY SCRAP AND OF BRASS AND BRONZE INGOT

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Office of Price Administration

I

The central problem with which the OPA had to deal in preparing price regulations for copper and copper alloy scrap and for brass and bronze ingot was that of formulating a structure of definite dollars and cents maximum prices for a collection of heterogeneous but closely related products. For reasons which will appear later, it was and still is extremely important that the maximum prices be adjusted as accurately as possible to the particular conditions of the case. That is to say, the problem is one not merely of preventing increases in prices but also of preventing distortions in price structure. In order to deal the more fully with this aspect of the problem, I shall have to omit most of the history. There seems to be no other way to compress an essentially long story into a short space.

Copper scrap is not one thing but a collection of things. Price Schedule No. 20, which is the regulation that governs copper and copper alloy scrap, lists six distinctly different grades of copper scrap, two of the six being grades which as they are handled in the market consist of items like copper wire with the insulation still on and hence have to be priced according to copper content rather than by a specific dollars and cents ceiling. Copper alloy scrap, consisting as it does of alloys, the metallic contents of which may consist of various proportions of a number of different metals, is far more heterogeneous. And it is the more diversified by reason of the fact that, unlike copper scrap, which consists mainly of wire and cable, it includes such widely different things as borings, gears, trolley wheels, wire cloth, faucets, and some dozens of other shapes. It goes almost without saying that the classification and definition of these things raise difficult questions, quite apart from questions of price.

The brass and bronze ingot, the prices of which are governed by Maximum Price Regulation No. 202, is equally heterogeneous, even though all varieties come in the same physical shape.

In order to have any intelligent understanding of the economic problems involved in the pricing of copper and copper alloy scrap it is necessary to have clearly in mind a picture of the scrap collecting industry. The various kinds of scrap originate at one end of the apparatus from several main sources. Some scrap comes from ordinary households; some comes from automobile graveyards; some, in fact a rapidly increasing quantity of late, comes from such industrial sources as brass mills, foundries, machine shops, and other industrial establishments. At the other end of the apparatus, the scrap is consumed by various users. Some is used by chemical plants for the manufacture of such things as copper sulphate. Some is used by steel mills. There are a number of other small consumers. The main bulk of the copper and copper alloy scrap, however, is used by copper refineries, brass foundries,

and, most important of all, by ingot makers. Connecting the sources of supply and the points of consumption, there is a rather elaborate structure. There are the junk collectors who move about with the familiar horse and wagon or dilapidated truck picking up these kinds of scrap along with many other kinds from private homes, apartment houses, and from public dumps. There are retail dealers in scrap who buy up the materials from the junk collectors and to some extent from industrial concerns and other sources. There are wholesale dealers who in turn accumulate scrap material from the retail dealers, from factories, and from various other sources, and dispose of it—possibly through the services of a broker, but usually not—to the different consumers.

It should not be thought that all scrap moves in the same way through this apparatus. Household scrap, to be sure, is apt to move through it in just the way one would think, from household to junk dealer to retailer to wholesaler and finally to consumer. Industrial scrap, usually called "plant scrap," is more likely to enter the apparatus at the retail or more particularly at the wholesale level, or even to avoid the apparatus altogether and to move directly from one industrial source to another industrial consumer. One of the main problems in devising a structure of maximum prices for scrap is to set up the prices in such a way as to maintain the scrap collecting facilities in an efficient working condition so that the scrap will flow smoothly and rapidly through the appropriate channels.

It is all the more important to maintain the collection facilities in good working condition by reason of the functions which these facilities perform. The collection itself is obviously important. As part of the collection, the accumulation of different types of scrap at the retail and more notably at the wholesale level in quantities large enough to be transported economically is of evident consequence. But the scrap industry does more than merely collect and accumulate. A second and even more valuable function is that of sorting. Few people have stopped to consider the self-evident fact that scrap, all the different kinds mixed up together, is of very little use. It becomes usable only when the different kinds are segregated, when iron and steel are separated from copper and brass, when copper is separated from brass and bronze, and when the different grades of each metal are sorted out separately.

A further dominant fact which always has to be kept in mind in thinking about the scrap industry is its extremely competitive character. There can be no collusion but only rivalry among the thousands of aggressive people who make their living in this sphere, and whose living depends upon trading successfully on a very narrow margin. It should be apparent, then, that correct price regulation in this industry involves not merely a careful kind of action if the scrap collection apparatus is to be maintained in a vigorous condition but also a very precise kind of action if margins are to be set at such levels as will encourage efficient flow of materials.

The ingot industry is definitely connected with copper and copper alloy scrap. It is indeed an outgrowth of the scrap business. Its particular function is to render copper and copper alloy scrap, making extremely little use of

new materials, into a form valuable for immediate use by foundries. This form is an ingot which is simply a lump of metal of somewhat the size and general shape of a loaf of bread and which is, therefore, convenient to handle. The operation of making an ingot is not so simple as might appear because it consists not merely of melting down the scrap but also, by close selection and careful combination of materials, converting it into ingots of precise metal specifications. Where on the one hand the ingot maker conserves virgin material by rescuing scrap, on the other hand he serves the foundryman by supplying him with raw material made exactly to the specifications required for the particular type of casting which the foundryman wishes to make. Thus the ingot maker gives industrial dignity to the scrap business while at the same time performing an important metallurgical work for the foundries.

A clearer idea of the importance of the ingot industry can be conveyed by citing two facts. First, the contribution of scrap to the supply of copper amounts to something like one-third of the total; of this third, ingot making consumes between two-thirds and three-quarters. Ingot making, that is, involves roughly one-quarter of the total copper supply. Second, there are about 55 ingot makers in this country who are of some size serving some 1,500 foundries, all of which are in war production. It is a matter of obvious importance that price regulation should foster and not impair the work of so vital an industry.

To complete the description, before turning to a discussion of the actual pricing operations it is necessary to point out that the copper scrap industry and the ingot industry are closely related and that the relationship is still in process of growth. This could hardly be better stated than it was in a letter written to the Office of Price Administration by a member of one of the industries. The letter reads in part as follows:

> The development of the scrap metal business is unique in character, having as its origin material that has served its initial or its intended purpose and been discarded by the original user. You have, most likely, in the study of this field of enterprise, traced its advancement historically and found that the growth has been due in great part to the initiative of individuals. These individuals, through hard work, enterprise, study, trial and error methods, found uses for this secondary material.
>
> The ingot manufacturers are an outgrowth of the scrap metal business. For practical purposes the ingot business did not come into any prominent position until the time of the first World War. Consumers would buy copper scrap, zinc scrap, and other selected scrap. The material that was not suitable to a foundry would be melted into an ingot and a use would be found for the ingot, whether in a casting or some other product would depend upon the foundryman, also an individualist, who would be "sold" on the item by the producer of the metal. From this beginning the ingot business developed to such an extent that the uniforming of metals became, as we have it today, a potent factor in the economic processes of this country.

If anything were needed to emphasize the importance of good workmanship in price regulation in this general area these two paragraphs contain it.

II

Turning now to the particular problems of price regulation in copper and copper alloy scrap, it is necessary at the outset to indicate more specifically the unique conditions surrounding scrap markets. With the intense

demand for copper consequent upon war, the scrap markets, like all other parts of the copper market, tightened. They tightened to such a degree that although nominally it is a practice of the Office of Price Administration to set only maximum prices, in point of fact in this instance maximum prices were bound to be actual prices. That means, for practical purposes, that the Office of Price Administration had as its job the determination of prices and margins throughout this area of enterprise. Moreover, by reason of the evident close relationship between secondary copper and virgin copper, it was a part of the job to establish such prices as would insure against disruption of the two supply mechanisms.

What this means in practice is that the price of secondary copper has to be set at a level consistent with that of virgin copper. No. 1 copper wire (scrap) can be converted into a substance identical with virgin copper merely by melting. Hence, the price of electrolytic copper, which already had been set at 12 cents per pound when the pricing of scrap came under consideration, served as a bench mark for the whole price structure of copper scrap. Making allowances for the costs of melting copper and making further allowances for shipping charges and quantity premiums, a base price for No. 1 copper wire was established at 9.75 cents per pound. The addition of shipping charges and quantity differentials brings the price to 10.75 cents per pound for material delivered in large quantity at the buyer's receiving point.

With the price of this one grade as a base, prices for other grades could be established in appropriate relationship. That is to say, having in mind the fact that the value of scrap is a matter primarily dependent upon its value in use, and the further fact that in normal times the market itself under this influence establishes appropriate price differentials between different grades of scrap, once the price of the one grade of scrap was determined, the prices of the other grades had to be set in accordance with the normal practices of the industry. This does not mean that the establishment of prices for copper scrap was a simple operation. It required a good deal of labor to convert the comparatively loose terms of the market into precise definitions. It took work before one could say:

> No. 1 copper wire shall consist of clean, untinned, unsweated copper wire or cable, shall have a copper content of not less than 98.5% and shall be free of copper wire or cable which is smaller than 16 B&S wire gauge, ashy copper wire or cable, burnt copper wire which is brittle, iron, solder, brass and all other foreign substances.[1]

It took more work to distill substantial fact from an accumulation of diverse estimates of the normal market relationships.

Copper scrap was first put under price control in the summer of 1941. There was at that time a kind of informal control over ingot prices and, of course, control over the price of primary copper. In setting out to regulate scrap prices, therefore, it was felt safe at first to omit copper alloy scrap and to regulate for the time being only the copper scrap. The assumption was that since the copper alloy scrap was used predominately in ingot and ingot prices were under some control, copper alloy scrap would necessarily remain at a

[1] Revised Price Schedule No. 20, As Amended, Section 1309.71, Appendix A, Paragraph (c) (1).

proper level. This, however, proved to be unsound. At that time various restrictions had been imposed upon the use of virgin copper but not secondary copper. It was only natural, therefore, that the foundries, eager for material to continue civilian production and able, if necessary, to use scrap directly, should outbid the ingot makers for scrap and divert the flow to themselves. So prompt and so sharp was this reaction that the Office of Price Administration never needed a second demonstration of the agility of the scrap flow. Neither did it need a second sign that the price of copper alloy scrap required direct control.

Price Schedule 20 as issued in revised form in February, 1942, placed specific prices on a beginning few of the many grades of alloy scrap. Here again arose the problems of the vagueness of market terms and the difficulty of determining normal and defensible price differentials. It took work to be able to say:

> Bell metal shall consist of genuine Bell metal and shall have a copper content of not less than 83 per cent, a tin content of not less than 15 per cent, a lead content of not more than 1 per cent, and must be free of iron.[3]

It also took considerable work to be satisfied that the price of Bell metal should be 15.50 cents per pound, that that price represented accurately the value of the material to the user, and that that price was in the correct position relative to the prices of other scrap materials. The establishment of specific definitions and specific prices represents an enormous amount of discussion with consumers and with sellers. It represents a frequent redrafting of tentative definitions and it represents more than a little reconciliation of conflicting practices and opinions.

The labor continues. The copper and copper alloy scrap price schedule as it now stands contains six grades of copper scrap and twenty-six grades of alloy scrap, each one of them defined carefully, and each one given its own specific dollars and cents price. An amendment to the schedule which is now being prepared will add fifteen more grades of alloy scrap, making a grand total of almost fifty items. It is believed that with this amendment added to the regulation, practically 100 per cent of the copper and copper alloy scrap supply will be under price control.

It would be foolish to assume that the prices as they now stand are absolutely correct. It would be still more foolish to assume that even if the prices were correct that they could continue to stand for very long. With relative demands shifting, price adjustments are necessary.

Adjustment might well prove to be especially necessary in connection with the system of quantity premiums, premiums for baling, etc., which is contained in the schedule. This system of premiums is designed to furnish the margins upon which the different classes of dealers trade and it is, therefore, the part of the price regulation which has most to do with the maintenance intact of the scrap collecting mechanism. It would be a mistake to imagine that this mechanism will remain so nicely in shape for the rest of the war that we need have no further concern about it in regard to prices. It might well

[3] Revised Price Schedule No. 20, As Amended, Section 1309.71, Appendix A, Paragraph (c) (7).

turn out to be important to stimulate a more diligent collection of scrap and to use price regulation toward this end.

III

The function of the ingot maker, it has been explained, is that of melting down scrap and converting it into ingots of precise metal specification immediately usable by the foundrymen. Mention has been made of the fact that many different metal specifications are employed. It might serve further to emphasize the latter fact and also to emphasize the elaborateness of the pricing problem in this area to say that Maximum Price Regulation 202 now lists some eighty different alloys, each of which must have its own specific price.

The first attempt at the regulation of ingot prices was purely informal. As early as the spring of 1941 there was issued a press release asking that the price of 85/5/5/5 ingot be held at 13 cents and that the prices of the other grades be held in normal relationship with this one. The 85/5/5/5 ingot, it ought to be explained, is ingot containing 85 per cent copper, 5 per cent tin, 5 per cent lead, and 5 per cent zinc, the several metals being always listed in this order. This first measure was never intended to be anything more than a stopgap, designed to give the market some stability and to give the price-fixers an opportunity to continue investigations. The fact that this particular stopgap control was connected with a diversion of scrap materials from the ingot makers to the foundries has been noted above. That fact hastened the investigations.

What had to be done was to obtain a sufficiently full and sure knowledge of the ingot business to permit listing of every significant grade of alloy with precise metal specifications and to give each grade an accurately calculated price. The work involved, as one might readily imagine, rather extensive field studies into matters of specifications, prices, and production volumes. It involved, like the study of scrap, a good deal in the way of reconciliation of conflicting opinions and practices, and a great deal in the way of rendering vague things definite.

Several circumstances had to be kept in mind in doing this work. First, since ingot contains predominately copper it is obvious that the price of ingot must occupy a proper position relatively to that of copper. Secondly, since ingot is made almost exclusively of scrap materials, the prices of the various grades of ingot must be correctly related to the prices of the various grades of scrap. The operation throughout, in fact, consists of knowing well enough which grades of scrap will be used in which specifications of ingot, to be able to build up the price of the ingot on the basis of the cost of the component materials. To be satisfactory the operation must result in a balanced price structure, internally in the sphere of scrap and ingot, and properly related externally to the price of virgin copper. It hardly needs to be stated that the problem of arriving at correct prices is interlaced throughout with the problem of arriving at an accurate statement of the specifications of the different alloys.

As bench marks for the determination of ingot prices, there were the 12 cent price of electrolytic copper and the 10.75 cent price of No. 1 copper wire, delivered, in large quantities. To assist in working from these bench marks there was fortunately the regular practice of the trade papers of publishing prices for four leading grades of ingot; namely, 85/5/5/5, 88/10/2, 80/10/10, 66/1/3/30. These published prices at least gave a clear notion of the kind of differential that had to be established. Further to assist, the members of the Nonferrous Ingot Metals Institute had available a kind of price schedule that had its origin in NRA days. During NRA an effort had been made to build up a system of base prices, discounts, and premiums as part of the code for the industry. Although this price system could hardly be regarded as entirely accurate or satisfactory, at least it did help in the work of calculating from the basis of the four regular grades.

The early work came to a culmination in the issuance of a price schedule which was embodied in a voluntary agreement between the Price Administrator and the ingot makers in February, 1942. This schedule accomplished two principal things. It placed specific dollar and cent prices on a number of grades of ingot, these grades making up the larger part of production. Second, it provided a mechanism for the pricing of grades of ingot not given specific prices in the schedule. The producer could write to the Price Administrator and propose a price, which price the Administrator would either confirm or adjust as he deemed appropriate. The price thus determined would then stand for that particular transaction. It is not too much to say that this device of approval pricing has been one of the most useful sources of our information. Through the experience which has been gained in connection with it, there has been accumulated a rather extensive knowledge of phases of the ingot business which otherwise would probably have been missed. This knowledge has been of the utmost importance in improving the price regulation.

Some notion of what has been accomplished to date can be conveyed by repeating that Maximum Price Regulation 202, as it now stands, provides specific maximum prices for about eighty different alloys, accounting for 98 per cent of the total production. Through the price approval mechanism, maximum prices have been provided for another hundred alloys.

Here again, it would be unwise to suppose that the work done so far is either perfect or permanent. It is true, as just stated, that there are published maximum dollars and cents prices for nearly all the production. It is also true that, if one may judge by the behavior of supplies, the existing maximum prices are fairly well adjusted to the available supplies of scrap and to current demands. Nevertheless, it may be doubted whether the supplies of the different kinds of scrap will continue in their present proportions. One of the main features of scrap supplies is that they depend to a large extent upon current manufacturing production. With the enormous increase in the fabrication of copper and brass products during the war, there has taken place an enormous increase in the total quantity of scrap available, but there has also taken place a great change in the relative supplies of the different kinds. Plant scrap is now far more important, both absolutely and relatively, than it was before the

war. With this kind of change taking place in scrap supplies, and with the change continuing, it is only sensible to suppose that in the future relative supplies will be different from what they are now. As this shift develops it will be necessary to take cognizance of the fact that ingot mixtures will have to be derived from raw materials somewhat different from those now used. For this reason prices might well require change.

There is, moreover, a larger matter. It is an unfortunate tendency in the ingot making industry—unfortunate that is, from the standpoint of an efficient war economy—to multiply unnecessarily the variety of ingot specifications. Any producer who can discover a combination of metals for which he might obtain a price that allows a wider margin than can be obtained on other alloys, has obviously an incentive to shift his production. One might well suspect that this incentive has been partly responsible for the appearance of some, at least, of the hundred alloys which the Office of Price Administration has been requested to price by approval. In wartime, variety is valuable only insofar as it contributes to efficiency. It might well prove to be necessary, therefore, for the government to regulate directly the number of alloys produced and to narrow substantially the present range. Should this turn out to be the case, the program of simplification will, of course, have to be accompanied by a program of price revision. The main thing that has to be done in pricing ingot just as in pricing scrap, is to erect a price structure that will keep the machinery of production in sound shape and in efficient operation so as to meet the requirements of war.

INTERNATIONAL ECONOMIC RELATIONS

INTERNATIONAL TRADE AND POSTWAR RECONSTRUCTION

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In considering the role of international trade in postwar reconstruction, I propose, first, to discuss the postwar objectives in the field of international trade that have already been subscribed to by the governments of the United Nations; second, to throw further light upon these objectives by summarizing briefly the outstanding developments in the field of international economic relations, and especially international trade, between World War I and World War II; third, to enumerate and discuss some of the difficulties which must be overcome if satisfactory progress is to be made toward achievement of these agreed objectives; and finally, to stress the vital importance in this connection of continued adherence by the United States to the liberal commercial policy which it has been pursuing in recent years.

I

The broad objectives of policy that are designed to govern international economic relations after the war, as contained in the Atlantic Charter, have been subscribed to by the governments of all the United Nations. The pertinent provisions of the Atlantic Charter are as follows:

> Fourth, they [the United Kingdom and the United States] will endeavor, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity;
>
> Fifth, they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic advancement, and social security.

These objectives have been made more specific in certain important respects in Article VII of the mutual aid (lend-lease) agreement between the United States and the United Kingdom; in similar agreements with China, the Soviet Union, Belgium, Poland, the Netherlands, Greece, Czechoslovakia, Norway, and Yugoslavia; and in the exchange of notes of November 30 (last) between Canada and the United States; and they have been adhered to in principle by Australia and New Zealand.

Article VII of the Agreement with the United Kingdom reads as follows:

> In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of

Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 12, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments.

There are a number of features of Article VII that require to be stressed in the present connection.

First of all, it is certainly a matter of profound significance that, in spite of the overwhelming preoccupation of the United Nations with the prosecution of the war, they have been able to reach agreement concerning the broad objectives of postwar economic policy and the necessity for co-operation in joint efforts toward their attainment. In essence, Article VII may be described as virtually a Magna Carta for postwar international economic collaboration. Nor is its significance diminished by the enormously difficult gap to be bridged between its mere enunciation, on the one hand, and its practical accomplishment, on the other. No informed person would make the mistake of underestimating the difficulties that will be confronted; but to all who are intent upon strengthening the economic foundations of peace and of world progress, such obstacles must be regarded not as a finality but a challenge.

Second is to be noted the prominence which is given in Article VII to international trade and trade policy. This in no sense implies that there are not other important and difficult economic problems which will call for solution, some of them (particularly those in the monetary and investment fields) being closely related to trade problems; indeed, the language of Article VII is quite obviously so drawn as to include these. What it does imply—and correctly so—is that the establishment of conditions in which international trade can flow without undue hindrance is indispensable to world economic reconstruction and to the attainment of the broad objectives set forth in Article VII itself.

Third, it is important to observe that Article VII does not stop with a mere reference to the desirability of restoring international trade but specifically mentions certain things that are to be done, or avoided, in this field in order to further the attainment of the broad objectives specified in the Article; namely, increased production, employment,

and exchange and consumption of goods. What are those things? There are two.

The first is that the conditions of the settlement shall not be such as to burden commerce between the two countries. Plainly, what this has reference to, primarily, is the disruptive effects upon Anglo-American trade that would result from any attempt by the United Kingdom after the war to repay the vast amount of aid which will have been received under the Lend-Lease Act. Passing over the question of how far, in the light of the partnership of the United Nations in the war effort, this aid ought to be regarded as repayable after the war, what this provision clearly implies is that any attempt to collect vast sums by way of repayment might well have effects upon our postwar commercial relations with the United Kingdom which would be detrimental to our national interests. Even if greatly increased quantities of goods were forthcoming from the United Kingdom, and even if the United States were willing to absorb them, it would still be necessary to take into account the adverse effects which these payments would have upon Britain's capacity to pay for current imports from the United States. (For simplicity, I here ignore the multilateral aspects of the payment problem as in no way changing the essentials of the case.)

Even before the war, the international payments position of the United Kingdom was such that it probably could not have stood the strain of an additional burden of billions of dollars represented by the lend-lease obligations. In 1938, the last full year before the war, the total imports of the United Kingdom from all countries exceeded the total exports by 377 million pounds. To pay for this excess the United Kingdom had a net income from shipping, investments, and other sources estimated at 322 million pounds, leaving an estimated deficit of 55 million pounds, which could be liquidated only by exporting gold, borrowing, or liquidating investments. Throughout the preceding decade the British balance of payments had been tending to run into a deficit, and there had been an increasing tendency on the part of the British to restrict capital exports. As a result of the war, Britain's capacity to meet her vastly increased load of international indebtedness has been greatly reduced by reason of the fact that she has been compelled to liquidate a large part of her overseas investments (perhaps as much as 50 per cent, though this is difficult to estimate) in order to finance her war effort. Other future sources of income, as for example shipping, have also probably been reduced by the war.

These are highly significant facts. Britain has heretofore been our leading foreign market and a particularly large importer of American

farm products. Her capacity after the war to continue buying from us is accordingly a matter of vital importance to American farmers and of real concern also to many branches of American industry. The provision that the terms of settlement shall not be such as to burden commerce between the two countries rests, therefore, not upon international generosity, but upon enlightened self-interest.

The other specific enjoinder of Article VII with respect to international trade is that agreed action by the signatories with respect to furtherance of the economic aims set forth shall include measures directed to the removal of trade discriminations and the reduction of tariffs and other trade barriers. Such measures, as indeed all others under Article VII, are not to be the basis of an exclusive economic alliance, but are to be "open to participation by all other countries of like mind."

The necessity for such action has been overwhelmingly demonstrated during the past twenty years; and the emphasis placed upon it in Article VII grows out of that experience. In explaining the causes of the world economic depression which set in at the end of the twenties, there may be differences of view as to the precise weight to be attached to rising trade barriers and to the gradual undermining and eventual drastic decline of international trade. Predilections differ on this score, and there is no way of putting them to exact test. What can, I think, be said with assurance, however, is this: first, that the rise of trade barriers in the twenties contributed importantly to the onset of the world depression at the end of the twenties; and second, that the rapid multiplication of these barriers during the depression greatly aggravated and prolonged the depression and, in so doing, contributed to the general deterioration of international relations which culminated in World War II. That is the essence of the matter; but it will assist toward a clarification of the problems that now confront us and that will have to be faced after the war if we pause to refresh our memories somewhat further as to what did happen in the field of international trade in the period between the two World Wars.

II

The first decade following World War I was one in which such fitful and sporadic efforts as were made to reconstruct international economic relations on a sound basis were largely vitiated owing to the pursuit by individual nations of disjointed, conflicting, and unsound economic policies which led gradually to the undermining and breakdown of the international economic structure. In this process the failure to deal properly with the problem of international trade very definitely played an untoward part.

The close of the war found economic affairs throughout the world in a general state of disorganization and chaos: international trade disrupted by all manner of wartime restrictions; public finances and national currencies in disorder in many countries; production disorganized; and on top of all this, war debts and reparations, in sums hitherto unheard of, hanging like a vast pall over the whole scene. For a time there was progress in dealing with some of these difficulties: imports so greatly needed by the war-torn countries were provided, mostly on credit; fiscal conditions improved in most countries; the stability and interchangeability of international currencies was reestablished; and production, which had lagged badly in countries where the internal disorganization was most serious, increased. Meanwhile, however, processes had set in, particularly in the fields of international trade and finance, which subjected the whole international economic structure to a strain that became increasingly insupportable.

As regards international trade, the decade of the twenties saw a recrudescence of extreme protectionism which was accelerated in the later years. In the United States the Emergency Tariff Act of 1921, followed by the general Tariff Act of 1922, was a forerunner. By the middle of the decade, by which time Germany had been released from the strictures upon her tariff autonomy in the Versailles Treaty, the movement had begun to gather impetus in Europe, with Germany and France constituting the pivot. The unfavorable trend of events in the field of foreign trade and commercial policy, coupled as it was with other untoward developments, led, in 1927, to a world economic conference which fully recognized the dangers inherent in the rapid rise of trade barriers and sought earnestly to institute measures to halt the trend. In the main these measures were unsuccessful. Almost everywhere the upward trend continued. In the United States it was manifested in the months of hearings and debate, inaugurated long before the onset of the depression, which culminated in the Tariff Act of 1930 (the Hawley-Smoot Act).

It is quite true that, in spite of rising trade barriers, there was an increase in the total volume of international trade during this period, much of it resting upon foreign lending of a type or under conditions which proved to be uneconomic. So long as means, however precarious, could be found to inject some sort of stimulus into the world economic anatomy and enable it to increase production, an increase in international trade was a natural concomitant. Nevertheless the increase in international trade lagged seriously behind that in production, rested upon insecure foundations, and was far from adequate.

It was far from adequate because the conditions that had developed in the international financial structure were such as to require the

development of a greatly increased volume of international trade in order to provide the debtor countries with the necessary flexibility in their international payments position with which to enable them to meet their international obligations. Those conditions were, in themselves, chaotic in the extreme; and the pursuit of discordant policies in the field of international trade added gravely to the complications. On top of the enormous debt burden left by the war, including reparation payments, international lending had been resumed on a vast scale and with little regard to the basic economic implications involved, particularly as related to the prospects of repayment. Much of this lending went into wasteful and uneconomic uses. Not only did the United States pour out funds on a vast scale, but other countries, notably Britain, France, and some of the smaller countries, exported vast sums of capital, chiefly in the form of short-term investments which left them in a highly overextended and tenuous position when the financial crash finally came. All of this served as an artificial stimulus to economic activity in both debtor and creditor countries which tended to gloss over and conceal the growing weaknesses in the whole position.

In the United States it seemed for a time that a magic formula had been discovered whereby a great creditor country could: (1) severely check the total volume of its imports by imposing extremely high duties on competitive and semicompetitive products of foreign origin; (2) collect payment of war debts from countries whose means of payment both for their current import requirements and for servicing their debts had to be chiefly in the form of exports of goods; and (3) continue without let or hindrance to export its vast domestic surpluses on an undiminished or even expanding scale. For several years it was possible, by resort to new lending, to keep the inherent absurdity of this conglomeration of conflicting policies below the surface; but it was a species of magic which, as events proved, could not last.

Such was the highly discordant and confused state of affairs in this realm that developed in the twenties. While all this was happening there were, as well, failures to deal, or deal successfully, with pressing internal economic problems in many countries; so that, both internationally and internally in many countries, the stage was gradually set for the collapse which came late in 1929.

In its earlier stages this relapse took the form of a severe business recession in which world trade fell, in quantum, by some 10 or 15 per cent below the 1929 level, and in value (owing to the collapse of prices, especially prices of foodstuffs and raw materials), by nearly two-fifths. But with the acute breakdown, in 1931, of the international credit and monetary systems and the disruption of the internal banking and financial structure of many countries, the downward spiral of

world trade dropped sharply to the point where, by the first quarter of 1933, the quantum of world trade was only about two-thirds, and the value only about one-third, of what they had been in 1929. Meanwhile international lending had almost entirely ceased; and with the breakdown of the whole monetary and trade system came a vast decline in production and employment throughout the world.

Never has the futility and the folly of attempting to deal with an international problem by means of purely nationalistic measures capable only of complicating the problem been better demonstrated than it was in this period; and what happened in the field of international trade affords an excellent illustration. In their frantic efforts to protect their monetary stability and their financial solvency, many nations began to adopt rigid controls over imports while at the same time endeavoring by various expedients to force their exports. Prohibitive and discriminatory tariffs, quotas, exchange controls, multiple currencies—these and other devices, conceived and applied with Machiavellian ingenuity, ushered in a period of economic warfare of almost savage intensity. Retaliation and counterretaliation set up a vicious circle of trade annihilation. Multilateral trade relationships rapidly gave way to a system of bilateralism which straight-jacketed and constricted trade down to a mere fraction of its earlier volume.

The most conspicuous, but by no means the only, practitioner of this system was Germany. By Germany the system was used as a means of making economic tributaries of her less powerful neighbors in Central and Eastern Europe, for the dual purpose of achieving greater self-sufficiency and of rebuilding her armaments. By using blocked marks as a means of exacting what amounted to forced loans from the countries from which she imported, Germany was able to obtain selective imports needed to facilitate the development of her armament program, and was able to do this without diverting a corresponding amount of her energies from armament production to the production of an equivalent amount of goods for export. By the time the present war broke out, however, she had about played out this string, her malign purposes having meanwhile been fulfilled. Other nations used, and some are still using, the bilateral system principally for other purposes. Whatever the object and wherever it may be employed, it is a system which should be done away with as soon as possible in a world in which international trade is to be permitted to contribute its full part to the general expansion of world economy and the rise of living standards thus made possible.

This brief account of the international experience in this field between World War I and II shows, better than volumes of theoretical discussion could do, why agreement on the objectives and principles

laid down in Article VII, followed by a united and determined effort to carry them into effect, is an indispensable part of the over-all task of rebuilding the foundations of peace and of general economic progress upon a more secure and lasting basis. In particular, two things are to be emphasized in this experience. First, it showed conclusively that policies of economic warfare, carried to the extremes to which they went in the interwar period, lead inevitably toward declining prosperity and lowered living standards for all countries. Second, it showed that the problems of international trade and international finance are so closely interwoven that their solution must be approached conjointly, and that the pursuit of commercial policies which promote rather than hamper the flow of international trade is an indispensable part of that solution.

III

I turn, next, to a consideration of some of the problems and difficulties that arise, or are likely to arise, in connection with the implementation of Article VII as it relates to international trade. Some of these are more or less general in their application; others relate more particularly to the United States; and I shall discuss them in that order.

An initial obstacle is to be found in certain attitudes which tend to weaken initiative and resolution in dealing with this phase, and other phases, of the problem of postwar reconstruction. These attitudes have several variants: that we should "fight the war first" and not dissipate our energies at this time on matters which lie beyond; or that it is futile, in any case, to attempt to draw up plans to deal with postwar conditions and problems before we know more precisely what those conditions and problems are going to be; or that what should be done in one field of collaboration, as for example international trade, is so dependent upon what is done in other fields that it is premature and unrealistic to attempt to formulate any concrete program at all at this time. However sincere such attitudes may be, they accomplish nothing but harm.

The notion that planning for the peace in wartime tends to divert energy from the pressing tasks of prosecuting the war seems to have been rather widespread for a while; but as the issues involved have been more fully discussed, I am disposed to believe—though it may be wishful thinking—that this view is now shared by only a small and declining minority. No doubt it has in the past been shared by a great many who, without having thought the matter through, have simply felt that they were being "practical," insisting on "doing first things first." But I strongly suspect that it has included, and still includes, most of those, here and abroad, who are really opposed to any post-

war program at all that calls for genuinely effective international co-operation and who are therefore anxious to prevent any crystallization of opinion or plans during the war which it would be difficult to frustrate later. In any case it is a shortsighted attitude. Far from obstructing the war effort, a clear statement of aims and a formulation of concrete plans and measures to make them effective can be forged into a powerful weapon for victory. In the immediate task of frustrating the Axis program of world conquest, our cause is greatly strengthened when we make clear that we are equally intent upon organizing a better kind of world in which this sort of thing cannot reoccur. In this connection the effectiveness of President Wilson's "psychological offensive" in World War I may be recalled.

Those who say that it is too early to make preparations for the postwar period have just enough appearance of realism in their attitude to give it a measure of deceptive plausibility. Certainly there will be a great many problems, in the field of trade and in other fields, that cannot be anticipated in detail—problems both of demobilization and of reconstruction which cannot be foreseen or at least cannot be clearly envisaged. Yet we know perfectly well, for example, that the relief of war-torn countries and, in general, the demobilization of wartime economies and the reconversion of industry to a peacetime basis, will present pressing problems toward the solution of which much can be done, now, to prepare the ground.

Those who are indisposed to grapple in advance with the specific problems of international trade, because they do not know for sure just what is going to be done about related problems, have no better case; in fact, belong more or less in the same category with those who are constitutionally unable to move forward at all without a microscopic preview of events. Of course it is quite true that what can be done, for example, with respect to the implementation of the international trade provisions of Article VII of the lend-lease agreements will depend in large measure upon what is done about other matters in this Article; or that what can be done about Article VII as a whole will depend, in part, upon the extent to which the Atlantic Charter as a whole is given reality and substance in the postwar world. But this only goes to show that the problems of peace and reconstruction are so closely interrelated that postwar plans for dealing with them must necessarily be over-all in scope. There is no alternative but to assume that in each sphere progress toward the established goals is attainable and to go forward on that basis.

The problems of organizing the peace are inherently much too difficult to be left to hasty improvisation once they have suddenly descended upon us. That was proven conclusively at Versailles after the

last war had been won. Not only should the broader aims be agreed to, but, so far as possible, the means by which these aims are to be accomplished should be fashioned now, every practicable opportunity seized to carry them into effect, and every policy or commitment running counter to them avoided. If those who want us to do virtually nothing now about the problems of the peace were to have their way, we would be as unprepared for peace as we would have been for war if some of these same persons had had their way prior to the attack on Pearl Harbor.

Quite a different sort of difficulty, one which perhaps deserves greater stress among economists, is a certain confusion of thought which appears to have crept into the minds of some economists with respect to the future role and importance of international trade itself. It is a particularly elusive and insidious sort of confusion to disentangle, partly owing to the factual setting with which it is surrounded, but also because to a considerable extent it rests upon inference rather than positive statement.

The general thesis is that the world is becoming so rapidly industrialized as a result of the desire and determination of the less economically-advanced areas to diversify their economic life that, as a consequence, not only is the pattern of international trade being fundamentally altered, but its importance in world economy, relatively if not absolutely, is diminishing. The inference is not only that all this is happening but that it is the salutary result of an inexorable process. In the unfolding of the thesis we are reminded, as if it were some new discovery, that the world can no longer be sharply divided into two communities, the first consisting of a few highly industrialized nations, the second of nonindustrial countries engaged in producing surplus foodstuffs and raw materials to be exchanged for the manufactures of the first group. We are reminded that, with the aid of tariffs and other forms of subsidy, manufacturing industry has been spreading to all corners of the earth in spite of anything that the more maturely developed industrial countries may do, and that, in many countries, this process is being greatly accelerated by present war conditions. Finally, we are reminded that, unless we readjust our minds to these "new" situations and disabuse ourselves of the notion that the conditions of international trade can be restored to the basis which prevailed twenty-five or fifty years ago, we shall be failing altogether to deal realistically with the postwar problem of international trade.

With some of this there will hardly be disagreement. Certainly it is a commonplace that manufacturing industries are being established and developed over wider areas of the earth and that, in most countries, this process has been encouraged by tariffs or other forms of

government assistance. Certain it is, also, that the present war is accelerating the process of industrialization in many countries where manufacturing has heretofore been relatively unimportant. As a larger part of the world community engages in manufacturing, the world's trade may become more diversified; and some countries may be faced with considerable problems of readjustment.

But any inference from this state of affairs that the reduction of trade barriers and the rebuilding of international trade upon a sound and expanding basis are no longer matters of capital importance, or no longer a practical possibility, would be an error of the first magnitude. And this is precisely the inference which seems to be left—or at least is not sufficiently guarded against—in some of the current economic discussion of this subject. With respect to this matter I would emphasize two points.

The first is that the spread of industrialism into new areas is not something new, but is a process that has been going on continuously since the Industrial Revolution won for Britain her initial position of primacy in manufacturing and world trade. And yet this process, far from retarding the growth of world trade, has actually promoted it. The opening up of new areas and the gradual development and diversification of the economic life of these areas has undoubtedly tended to broaden the whole basis and increase the volume of international trade as a whole; just as the similar developments within our own country have contributed to the vast growth of internal commerce among the different regions.

Where we get on delicate ground with respect to this matter is in appraising the role of protective tariffs and other government aids in conjunction with this process. That such aids have been widely employed in encouraging industrialization in many of the newer areas of the world is an historical fact. No doubt they have tended to hasten the process of industrialization in such areas; and it is obvious that such industrialization did not prevent, but on the contrary contributed to, the rapid growth of world trade during the past century. This, however, is not to say that protectionism has not often been carried to an excess which retarded the pace of economic development. Nor does it mean that the resort to ambitious measures of local tariff protection in the process of diversifying the economic life of the less industrialized areas of the world may not be fraught with serious dangers. Those who desire to encourage diversification are very likely to overestimate the role of tariff protection and underestimate the importance of other factors in promoting this end—to the point where it is sometimes even assumed that there is something inconsistent between liberal commercial policy and the carrying out of any extensive

programs of international investment in the newer areas of the world. How easy it is to overshoot the mark in this regard is perhaps illustrated by contemplating the way in which manufacturing industry within our own country spread from the Eastern seaboard into the West and South without the benefit of local tariff protection.

The second point I would emphasize is that the key to this whole matter of the growth of international trade, as influenced by the spread of industrialism throughout the world, lies in the achievement of those conditions generally which will permit expansion of the world economy and an accompanying rise in the living standards of the masses of the people. The achievement of those conditions involves many questions of both international and internal policy. What requires stressing here is that a relatively unhampered flow of international trade promotes —and, in turn, is fostered by—these conditions. Given the situation in which the purchasing power and the standards of living of the masses of the people are definitely on the upgrade, there are no sharp limits upon the extent to which the principle of international division of labor, and the benefits accruing therefrom, can be carried. The thriving trade that prevailed for many years between Great Britain and Germany is a familiar example of the extent to which a large volume of trade, based upon a high degree of specialization, can exist between two highly industrialized countries. Another is our own trade with Great Britain, which, aside from our large export of agricultural products to the United Kingdom, includes the exchange of a large volume of manufactured products.

It is worth insisting, therefore, that what happens with respect to international trade and commercial policy after the war is, indeed, a matter of vital importance to all countries. The question is not one of dispensing with something that is no longer as essential as it once was, but rather is one of realizing the opportunities for growth and advancement to which the relatively unhampered flow of international trade can so greatly contribute. We shall be guilty of the gravest error if we permit ourselves to be diverted from the main task in this field—the task of reopening the channels of trade—by an excessive preoccupation with new problems of international competition growing out of the industrialization of the newer areas. In a dynamic world there will always be such problems; but in the broader perspective of a sane world of orderly growth and of intelligent co-operation for the common welfare, they assume less serious proportions.

To recapitulate on this point:

1. The diversification of the economic life of the newer areas of the world through the development of reasonably well-adapted types of industry is not fundamentally incompatible with the further expansion

of international trade under conditions conducive to general economic progress. On the contrary, it may even contribute to such expansion.

2. It decidedly does not follow from this, however, that such diversification should be encouraged with little or no regard to its possible implications in the field of international commercial policy. To assume otherwise would be a most serious mistake. The danger that efforts to diversify may be accompanied by too much reliance upon tariff protection and too great a tendency to encourage uneconomic types of diversification is always present. But if, in addition, this were associated with, and in part responsible for, a world-wide upward trend of trade barriers and discriminations, at the very time when a reduction of such barriers is so clearly indispensable, it would certainly have to be set down very emphatically on the liability side of the ledger.

3. There is nothing in all of this that in the least diminishes the importance of the role which international trade can and should play in world economic expansion for the future. There is simply no justification for the loose thinking which appears to have crept into the sacred precincts of the economic profession itself, to the effect that to be much concerned over such old-fashioned matters as international trade and commercial policy is to be unrealistic and out of step with the times.

The obstacles to progress in the implementation of Article VII to which reference has thus far been made are chiefly in the realm of ideologies and attitudes. It remains, however, to mention a type of difficulty which is of a more practical and formidable character; namely, the prospect that the postwar period will be a period of controlled economy in practically every country which will necessitate far-reaching controls over international trade.

There is, I think, general agreement that the problems of adjustment to a peacetime economy will be so difficult that these alone will require the continuation of many of the wartime controls over industry and trade for a time after the war. Beyond this, however, there is a widespread feeling that even those countries which have heretofore maintained free economies will find it necessary, perhaps permanently, to maintain controls over many types of economic activity in order to cope with the problem of full employment. And a "full employment" policy, it is contended, will require controls in the field of international trade which are, as the *London Economist* puts it, "incompatible with the automatic techniques of the free market."

It is not possible to dismiss this difficulty with a passing observation that our own economic system, and the one which we prefer, is based upon freedom of enterprise. No doubt a great many controls will have to be maintained during the period of demobilization and re-establishment of peacetime economy; and it may well be the case that some

types of problems will be such as to require more permanent measures of control, national or international. Some countries, as Soviet Russia, will presumably be operating under more or less complete systems of controlled economy. It may be that new techniques can be developed by which such controls as are essential can be exercised without unduly restricting the flow of international trade. Although the experience to date in this field is perhaps not altogether encouraging, it is but fair to add that the techniques for developing international trade between countries which have economic systems based mainly on government enterprise, or between "government enterprise" countries and "private enterprise" countries, are still largely an unexplored field.

In any event, what I am concerned to stress here is, that if postwar controls become so widespread and so restrictive as to straight-jacket and stifle international trade, they will result only in economic stagnation. To shut one's eyes to the dangers inherent in this situation would be sheer self-deception. Take, for example, this very matter of "full employment." A great deal of emphasis is given to the point that the attainment of full employment in the various countries (particularly the major industrial countries) would so increase their demand schedules for goods and services that the problems of international trade and the adjustment of international balances would be greatly alleviated. That, of course, is true—indeed, almost axiomatic. What has to be shown is that any given set of proposals will, in fact, tend to promote full employment—and by employment I mean employment based upon the effective utilization of available resources. From this point of view, the implications of all such proposals from the standpoint of international economic relations are a matter of first-rate importance and will require careful scrutiny. There will be great temptation to place all of the emphasis upon purely domestic measures and to ignore the international aspects of the problem, because it is the domestic approach that will seem most practical, most manageable, and most promising of immediate results.

Even those proposals which stress international collaboration with respect to internal programs as a means of eliminating severe fluctuations of the business cycle and promoting full employment, including proposals for collaboration in promoting investment in the industrially less advanced countries, contain elements of danger from the standpoint of international trade and commercial policy which we cannot afford to ignore. Some of these pitfalls were mentioned earlier, in connection with the discussion of diversification of industry in the less developed countries. I throw out this note of caution, however, without in any way questioning the necessity for reviving the flow of international credit and investment generally as an indispensable require-

ment for postwar reconstruction—a subject which is being discussed more fully at another session of these meetings.

The sole point I am making is this: If internal programs for promoting full employment, or for any other purpose, are permitted to take a form where they cannot be executed without the establishment of controls which stifle essential economic relationships with other countries, they will fail of their purpose. Soon or late, programs of full employment which can be maintained only on the basis of international economic warfare will bog down and go under. If, in their initial formulation, they are permitted to include important elements of autarchy, vested interests may be created of which it will be impossible to be rid later. If autarchy is an important part of their make-up, it will be idle to talk of international co-ordination of national planning, because the international co-ordination of autarchy is simply a contradiction in terms.

In the long run the problem of full employment and rising living standards will not yield to purely nationalistic, "bootstrap" measures which ignore the high degree of economic interdependence that characterizes the world of today. The great advances in modern science and technology which have extended the range of possible substitution of synthetic for natural products must not be permitted to create the illusion that this fundamental interdependence is, for any nation, becoming a thing of the past. The leading exponent of this theory, namely Germany, was able to construct a mighty military machine for world conquest based in part upon this idea; with what results, we are now witnessing. Its costs are to be reckoned, not alone in terms of the economic sacrifices which programs of autarchy entail, but in terms also of their deteriorative effects upon international relations as a whole.

There are, of course, other problems and difficulties that might be discussed if space permitted. For example—to mention but one—there is the problem of international cartels. The implications of present trends and possible future developments in the field of monopolies and international cartels are far-reaching, not only from the standpoint of international trade and commercial policy, but also from the standpoint of production and employment.

IV

I turn, now, to the domestic scene. Most of the problems and difficulties which I have just been discussing have a part of their setting in the United States; but it may be well, at this juncture, to point up the whole discussion from an American point of view.

The successful implementation of Article VII, in both its international trade and its other aspects, will depend in large degree—although

by no means exclusively—upon the course which we ourselves elect to follow in the critical months and years ahead. And here we come squarely up against the fact that a problem which would be difficult enough under the most favorable auspices is further complicated by the traditionally hostile attitude of large and powerful elements of our population with respect to indispensable measures of international co-operation, both economic and political, including modifications of our tariff structure which will permit a healthier flow of trade with the rest of the world. If this attitude prevails in the months and years ahead to the point where we cannot take measures, or enter into and execute commitments, that are an indispensable part of any orderly program of reconstruction, it will, indeed, be a sorry day in the history of this country and the world. And yet it would be foolhardy to assume that it cannot happen.

In the field of international trade, it is obvious that means must be found to increase our total volume of imports without sacrificing any domestic industry which, while reasonably efficient, is nevertheless dependent, in greater or less degree, upon tariff protection, and without sacrificing any industry which must be maintained and preserved for reasons of national security. There is no way of getting around this necessity for buying more from other countries that will not involve huge sacrifices—including, eventually, sacrifice of the interests of our great export industries; no legerdemain by which we can for long maintain our essential interests as a part of the world community without doing it. It is a task set by considerations, not of international largesse, but of national self-interest. But it will not be an easy one.

Even the slightest familiarity with our tariff history suffices to show the difficulty. The inherent tendency of protectionism to operate as "an expanding force which feeds upon itself and tends always toward extremes," as one student of the problem has put it, finds ample illustration in our own experience. The manner in which, through logrolling and political manipulation, powerful groups of protected industries have been able, repeatedly, to secure the enactment of tariff rates very much to their own liking is a matter of history; and there is no point in dwelling up it.

The situation which we will face in this regard at the close of the war may well be further complicated by the effects of the war itself upon the many of our domestic industries. The illustration which most readily occurs is the much-discussed case of rubber, the question in this instance being one of whether this problem can be satisfactorily dealt with without imposing a tariff on crude rubber. This, however, is but one case; there will be many others where it is fairly clear, even at this

date, that industrial changes wrought by the war are going to give rise to troublesome tariff problems.

There is no point in indulging in self-deception with respect to the inherent difficulty of maintaining a liberal tariff policy in the face of such conditions. There will probably be emergency cases where a failure to continue the present degree of protection under the specific conditions which will exist after the war, or even in some cases to raise existing duties or otherwise limit imports, would be hard to defend. Failure to maintain adequate protection in such cases would tend to undermine the whole basis of a liberal commercial policy.

But by the same token it is important that our people should recognize that the indiscriminate "jacking up" of tariff rates all along the line to virtually prohibitive levels must be at an end if we mean to play our part in the establishment of a better international order. We are going to have to learn sometime that it is better for a protected industry to have a somewhat smaller percentage share of a prosperous home market than it is to have a large share (even 100 per cent) of a poor home market. The economic interests of this country are highly diversified, and they include vast segments which are directly dependent upon export markets, as well as others which are directly linked, in one way or another, with the world economy. Unless we can create conditions favorable to an increase in imports as part of a broader program designed to establish expanding economic relationships with the rest of the world, these interests will suffer directly; and all of us, including the protected industries themselves, will share in the heavy penalty which will be ours for failing to bear our full share of responsibility in the great task of world reconstruction.

To carry out our part of the task with respect to the restoration of international trade as envisaged in Article VII, it is obvious that we must have the necessary tools. As has already been made sufficiently clear, the task is one which ramifies into fields other than commercial policy, particularly the field of international financial and monetary relations. One of the central requirements is, however, that there be effective and flexible authority in the hands of the Executive to deal with the problem of foreign trade in a manner calculated to further the objectives of Article VII.

The general pattern of such authority is already on our statute books, in the form of the Trade Agreement Act. The limited powers originally granted under that Act, first provided in 1934 for a period of three years, have already been twice renewed for similar terms. On both occasions the manner in which these powers were being administered was subjected by the Congress to the most searching inquiry

and debate. Both times the verdict of the majority was that the Act was being administered with proper discretion and was serving the vital economic interests of the nation. The Act will expire in June, 1943. It is of the most critical importance in connection with the whole program of postwar economic reconstruction that the type of authority for which it provides be continued.

Here, in fact, is a concrete test that we shall shortly have of the extent to which we propose to infuse practical content into the framework of broad objectives to which we, along with the other United Nations, have subscribed in Article VII and in the Atlantic Charter. On previous occasions the bills to extend the life of the trade agreements program were introduced in January. I am disposed to believe that the vast majority of Americans now realize that isolationism is a dangerous and costly delusion; that our own future security and well-being definitely require that we join wholeheartedly in a program of international co-operation designed to establish solid foundations for peace and for the orderly progress of all peoples. What remains to be demonstrated is how far we are prepared to go in the implementation of that program. Are we going to be content with pious generalizations; or are we going to insist upon the subordination of selfish—and often mistaken—individual and local interests to the general welfare? We shall very soon have this matter put to the test.

V

Briefly, then, to recapitulate what has been said or implied in this discussion:

1. The essentiality and the broad principles of a program of restoration of international trade, as an indispensable part of a wider program of postwar economic reconstruction, have been recognized and subscribed to by the governments of the United Nations, in the Atlantic Charter and in Article VII of the mutual aid (lend-lease) agreements which they have entered into with the United States.

2. The necessity for such a program is conclusively demonstrated by world experience in the field of international economic relations during the years between World War I and World War II. This experience shows that it will be necessary to find ways and means of reducing trade barriers of all kinds, including not only the reduction of tariffs and the elimination of tariff discriminations, but the elimination, as rapidly as possible, of that whole galaxy of trade-annihilating measures—restrictive quotas and exchange controls, clearing and compensation agreements or other forms of bilateralism, and other devices, plain and fancy—which have in recent years infested international trade, sapping its vitality like so many leeches. Further, it shows the necessity for co-

ordinate action in the financial and monetary field, including the stabilization of exchange rates and convertibility of currencies, and including also the creation of necessary machinery for the establishment and proper functioning of the whole system of international credit and investment on a basis that will encourage the flow of funds, for productive uses only, to the "capital-hungry" areas, thus promoting general economic stability and an expansion of the world economy. And finally, it shows the necessity for co-ordinate action in the field of international political relations designed to create a sense of international security and confidence in the absence of which all measures of economic collaboration will fall short of their goals.

3. The achievement of the objectives with respect to international trade set forth in Article VII is beset with a host of difficulties which must be frankly and squarely faced. Some of these are in the realm of ideologies and attitudes which tend to undermine initiative and resolution in dealing with this exceedingly vital phase of postwar economic reconstruction. Others, such as the probable need for continuing, for some time after the war, many of the wartime controls over industry and trade, are inherent in the current situation; not to mention the further possibility of more permanent types of measures involving more or less modification in the operation of free economies, including foreign trading systems.

4. In the United States—not to mention other countries—the problem will be complicated by the highly protectionist tendencies which have played such an important part in our tariff history; to which may be added the further complications likely to be introduced by the wartime establishment or expansion of domestic industries which may demand new, or additional, tariff protection after the war.

5. It is essential that every effort be made to anticipate these difficulties and to deal with them in the most constructive way. In order to do this, it is indispensable, so far as concerns the United States, that the Executive have effective and flexible powers in dealing with the tariff. What this means, in more concrete terms, is that the type of authority now provided for in the Trade Agreements Act, which expires in June, 1943, should be extended. That, alone, will certainly not suffice; but it is an indispensable part of a more comprehensive program for the achievement of the aims set forth in Article VII.

A BRITISH VIEW OF POSTWAR TRADE

By REDVERS OPIE
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The advantages of reading Mr. Edminster's paper before writing my own are not net. His paper covers so much ground that the limits within which I can move are narrow, and they have in a great measure determined the scope of my own paper.

The announced title of my paper, "A British View of Postwar Trade," allows me to dissociate myself from my official capacity and to present one personal set of reflections on a problem that must concern all economists who think about the postwar. It would be arrogant and hypocritical to suggest that I am uninfluenced by the views of my fellow countrymen, but I do not in any sense pretend that what I have to say is representative of British literature on the subject, much less of opinion as a whole.

The first tentative title suggested for this paper was "The Importance of Restoring World Trade from Britain's Standpoint." There are, of course, no differences in kind between the interest of Britain and the United States or any other country in this respect. Differences in degree of importance attaching to international trade in affecting the level of employment and the productivity of the factors of production, the variables which determine the size of the national income, do of course exist as between countries. While it may not be true to say that "trade, to others a thing apart, is England's whole existence," yet England is high in the list of countries whose welfare is bound up with prosperous, free-flowing, and expanding world trade. Nevertheless it would be impolitic to lay undue emphasis on these differences of degree, for just as the problem of world peace is indivisible, so the community of interest in expanding world trade is indivisible. The recognition of this indivisibility is the first essential step in both cases to the development of that enlightened national self-interest which is the only possible basis of sound and secure world conditions.

From this point of view, the degree of Britain's dependence on world trade is significant for the readiness with which enlightened self-interest will dawn and efforts be made to play a part in restoring world trade. Too much should not be made of the decline in the importance of foreign trade in contributing to Britain's national income that has occurred in this century. As imperfectly reflected in the proportion of industrial output exported, the decline was from a third or higher in 1912 to 27 per cent in 1924, 22 per cent in 1930, and possibly as low as 15 per cent in 1938.[1] By no means all of this decline was a change in

[1] See Henry Clay, *Economic Journal*, 1942, p. 146.

trend, whether on account of changes in the conditions of comparative advantage, or on account of more exclusively domestic changes, such as the growth of "tertiary" industries. Some of it was undoubtedly a reflection of loss of potential income owing to the shrinking volume of world trade, a loss which, statistics and a priori analysis combine to convince economists, was one of the historical might-have-beens. Britain still stands to gain or lose enough from the state of world trade to dispel all doubts of its readiness to play a leading part in concerted action to restore sound trading conditions.

It would be superfluous to argue before this Association the economic merits of the territorial division of labor in conformity with the principle of comparative advantage. Nor is there any need to dwell on the analysis of short-run problems, in contrast to the long-run objectives, which concern methods of absorbing the shocks of readjustment to external influences on domestic economies or of facilitating economic development by means of nurturing tariffs. The instances in which economists, British and American, have fallen from grace by thoughtlessly, even irresponsibly, depreciating the virtues of international trade in the modern age are rare; and no good purpose would be served by indulging in recriminations. They stand before us, however, as a warning of the difficulties that persist in bringing statesmen and the people to admit the validity of the economic parallel between a community of nations and a community of units within the nation. It would almost seem that an act of faith is necessary to achieve and maintain this belief. The reason is not far to seek. International relations in all their phases are political problems; and international trading relations are no exception in being a politico-economic problem. The practical economist—perhaps we should revert to the old term political economist—cannot get far in thinking of the future of world trade by ignoring every political datum. We can abstract from the political elements by abstracting from the forces which direct the combination of factors of production, and demonstrate the economic elements in the problem of international trade. Nations and industries are personless automatons in the analysis which shows the economically desirable but not the *politically* desirable or attainable. Because it allows this distinction to be made, however, the usefulness of the economic analysis in real life is unquestionable.

I propose to dwell upon the political elements, before proceeding to discuss the way in which the problem of restoring world trade confronts Britain, because I seem to detect two new features on the political side in recent years. Obstacles to trade have long been raised by lack of public understanding in general, by vested interests with political power, and by appeals to defense needs. But to these there have been added

two elements—politico-economic if not purely political in nature—which it would be fashionable to call "ideological." The one I shall call, for want of a better term, "bilateralism on principle"; the other is the dispute—private enterprise versus state control and operation at home—which now obtrudes into foreign trading. These two are not unrelated; in practice they both raise the question of state trading; but they are different enough, especially with respect to the degree of difficulty which they introduce into international relations, to be worth considering separately *in extenso.*

I doubt whether there is a single pure bilateralist in England, just as there were no pure "psychological hedonists" in the eighteenth and nineteenth centuries. But influences of varying strength have been evident in different countries deriving from the doctrine which I have called "bilateralism on principle." It would be idle to deny that there have been traces of the influence in English publications, but the strength of it has been exaggerated abroad. The leading characteristic of the doctrine appears to be that the use of state control over the purchase of imports is desirable per se. Arguments and the sources of inspiration are difficult to detect. Sometimes the doctrine is shallow historical determinism, based upon easy generalizations such as: (1) that the preordained harmony prevailing in international transactions during the nineteenth century was shattered by changes in rates of increase in population, by the absence of new territory to open up, and by the growth of *partial* government interference with foreign trade; (2) that analysis of events in the interwar years discloses the inevitability of instability if the innumerable eddies of multilateral payments are left uncontrolled; (3) that the spread of technological knowledge and skill have made international trade unimportant, or even impossible, if free. Whatever the reasons, disequilibria in the balance of payments of different countries are assumed to be inherent in the free trading system. In some quarters Dr. Schacht is hailed as a prophet, albeit a wicked one, because he had insight into the inevitable development in the methods of foreign trading based on the political system of the future. Some uninformed people thought that the bilateral payments agreements made by countries less belligerent than Germany before the war, and the additional agreements which Britain was compelled to negotiate in the abnormal circumstances of war, were further evidence of the handwriting on the wall. False ideas of the simplicity of a system of bilateral state trading arrangements misled other people into advocating the system, failing as they did to consider the complications in a situation in which each country would necessarily have regard to the terms of all the other bilateral bargains in negotiating a given agreement. Obsession with the balance of payments problem,

however, is probably the root cause of the hankering after bilateralism. The obsession leads irresistibly, it would seem, to a static view of the processes of trade. It is assumed that a given volume of imports must be obtained without that resort to international borrowing independently of specific exchanges of goods, which is the means in a free system of extending the period over which trading accounts are balanced. Or alternatively, imports must be reduced to the level of the existing volume of exports from the countries with passive balances.

The economic argument against bilateralism, apart from the charge of unwieldiness of the system of state trading *à l'outrance,* is thus its constrictive effect on world trade. Either balancing is achieved all-round at the lower level of the volume of exports of the countries with passive balances, with a tendency for constant pressure to be exerted to lower the level further, since countries accidentally acquiring passive balances would be those initiating action to redress the balance; or else involuntary tied loans would be exacted from countries with active balances or from countries in a weak bargaining position—unless indeed the terms of trade could be turned against the weak countries and to that extent resort to either of the two alternatives avoided. The choice of the first alternative might seem at first sight to result merely in the countries with passive balances reducing their standard of life in keeping with their current income; but given the multiplicative or cumulative processes that operate in a dynamic economic system, the ultimate destructive effects would be incalculable. The choice of the second alternative would confine the benefits of international lending to investment openings in the countries with passive balances, if indeed there were any investment at all. In either case the multilateral processes which give us an international system, capable of helping all by the efforts of each, would be obstructed. This is the economic sterility of bilateralism.

The political argument against bilateralism is simple. It frankly implies economic power politics. Whatever may be said on the inevitability that national power will play a part in international affairs as long as national sovereignty is not fully surrendered, no responsible person would wilfully extend the area of possible friction by advocating bilateralism on principle. Diplomatic relations will become increasingly complex as international economic institutions develop, but the risk of clashes is reduced by the very fact that at the outset the approach to the problems is international. Bilateralism on the contrary is the negation of internationalism. A further political disadvantage of bilateralism is that it may force the pace of state control at home faster than would result from considering the question on its merits.

This brings me to the second new political element: the obtrusion

of state control at home into foreign trading. In the domestic sphere the question of the mixture of state control with private enterprise is not new and I venture to express the hope that it may long be with us. Only a misreading of history will allow of sharp contrasts between the alleged laissez faire of the nineteenth century and the recent past or near future conditions of state control. No service is rendered by calling periods of acceleration in the tempo of development—in which history abounds—revolutions. This applies especially in calling the present war a symptom of the world revolution that is supposed to be going on, not only because it implies that the causes of this war are pent up social forces which only war could release—which in my view is irreconcilable with the record—but because it tempts us to make an unnecessarily alarming break with tradition in trying to foresee the probable trend of politico-economic development. The question is still an open one, of the extent to which private enterprise is desirable as a method of decentralizing the economic process or otherwise conducing to economic efficiency, as well as in contributing to noneconomic freedom. I could not usefully intrude my own weighing of the evidence on the question into this paper. But the point is that the pattern of the development of mixed systems of government and private activity is likely to be more complicated in the future than it has been in the past, and that there will be different impacts from different countries from this domestic development on international trading relations. The prospect that government activities will have increasing impacts of varying strength on foreign trade is a good reason for building new international institutions, or at least for laying down rules, to govern the new influences. In particular it seems certain that some provision will have to be made for state trading within the framework of the international system, but whether this will require special machinery or whether a system based partially on private enterprise will be able to tolerate a certain measure of state trading without such special provision, as was the case before the war, remains to be seen. Much will depend on whether the majority of nations take the cosmopolitical view and have faith that other nations will behave likewise, or whether economic nationalism prevails with an intensity equal or surpassing that in the interwar period. It is significant that in the recent study by the League of Nations on commercial policy in the interwar period[2] mutual distrust is coupled with doubts about the maintenance of peace as one of the twin causes of the failure to restore a free international system.

How do the problems of reconstructing a sound and relatively free system of world trade look from England's standpoint? There can be

[2] Series of League of Nations Publications II, Economic and Financial, 1942, II. A. 6, p. 116.

no doubt that there is no second best to a flourishing and expanding volume of world trade as a final solution of Britain's problems. This happy condition would be both cause and effect in relation to prosperity in every country. But the task ahead looks formidable viewed from Britain. The problem of reopening, or cutting anew, the channels of world trade may be split into three parts for convenience of analysis. The first relates to a relatively short period immediately after the cessation of hostilities, or even earlier, since the reoccupation of territory may be accompanied by the movement of goods in channels previously blockaded. In this field there will be the minimum of choice with respect to action to be undertaken. It might be called the period of relief. The second relates to a longer transitional period in which the tasks of reconstruction proper are undertaken. During this period government activities in most countries would be yielding ground to private enterprise. And the third relates to the ultimate objectives, stretching into the indefinite future.

The separateness of the three parts should not be exaggerated. The first two have this in common, distinguishing them from the third, that they deal with the aftermath of war. They might be considered as a single part of the problem, especially since relief must be the first step in reconstruction and the processes of relief so arranged as to support the emerging economic life of the war-stricken communities. Relief and reconstruction will proceed simultaneously, even in countries which are at the receiving end of activities. There can be no perfect chronological order in the taking of decisions relating to the three parts of the problem, for the meaning of the transitional period can only be given in terms of the objectives to be attained. Therefore, some measure of agreement on the ultimate objectives must be reached before plans or action in reconstruction can be carried very far, unless the rebuilding after the war is to be opportunistic and aimless.

Britain is not now likely to suffer the ravages of war on such a scale that it would have to be a recipient of relief. Despite the prospect of impoverishment at the end of the war, the British Government have already committed themselves to contribute twenty-five million bushels of wheat or the equivalent in the transport of wheat or flour for relief purposes.[3] Transport may be one of the important sources of British contribution to relief, within the limits set by the possible over-all scarcity of shipping. The power of a country so dependent on imports to contribute food and raw materials to relief depends, of course, on the stock position at the end of the war. But Britain has an interest in common with all the United Nations in seeing that relief, promptly and adequately rendered, provides the basis for rehabilitation and recon-

[3] See J. S. Davis, *New International Wheat Agreements*, p. 32.

struction. Adequate relief is important as a contribution to political stability. But it must not be needlessly prolonged if it is to make the maximum contribution directly to economic reconstruction. If the provision of materials through the relief organization to restart agriculture and industry offered the prospect of shortening the life of relief, they should be provided, whether or not a net saving on relief contribution resulted, which probably would. Furthermore, the system of relief distribution should be integrated with the existing or emerging market organization and price structure. If these things were done in accordance with broad principles previously agreed by the United Nations, relief would justifiably be called the first step in reconstruction.

In the problems of reconstruction proper, Britain, as the world's greatest trader, has both a leading interest and special difficulties. I need not stress the interest. Countries most dependent on foreign trade have most to gain from the revival of world trade. But we must not forget the community of interest; and without wishing to be unduly challenging I would hazard the generalization that capital-poor countries have as much as any countries to lose from the failure to revive world trade, notwithstanding their relatively small share in foreign trade to date. The difference is that their loss is prospective while Britain's is immediate.

Four main difficulties confront Britain in taking her place again in world trade. (1) The conversion and concentration of industry for war purposes has been on a vast scale. Surveys comparing post-1918 with the probable situation after this war indicate that reconversion will be very much more difficult than after the last war. The slowness of this physical process—to which must be added difficulties on account of physical destruction—will determine the rate at which supplies for export will be forthcoming. (2) The disruption of world trade and the development of new industries abroad will have destroyed permanently the demand for some British exports. This loss will be felt as a dead weight in the immediate postwar period and it will take time to evoke new demands for exports. (3) Foreign assets have been liquidated on a great scale, especially during the first eighteen months of war, though the process continued thereafter; and new external short-term indebtedness is still being incurred. It is to be expected that about half of the 200 million pounds per annum prewar income from foreign investments will have been permanently lost. (4) Loss of income from shipping and other services on which Britain is dependent to maintain equilibrium cannot be expected to be restored for a considerable time after the war.

The foregoing difficulties are not all peculiar to Britain, even in degree, but their cumulative effect creates a serious balance-of-payments problem in the immediate postwar years. There is no automatic check

on the demand for imports to keep them within the bounds of available means of payment, and no absolute assurance that with the revival of world trade in the most favorable international atmosphere adjustments will occur rapidly to redress the balance. So far as adjustments in Britain are concerned, something may be hoped for in the technological advances in industry and agriculture that have occurred during the war, with perhaps some addition to the reserves of skill from the process of up-grading labor. Agricultural organization and technique have improved but it remains to be seen how much this has permanently improved the competitive position of British agriculture and diminished the dependence on imported food and animal feed. The gain is probably small by comparison with the loss of income on foreign investments.

There is a choice—which some would call a dilemma—confronting all countries with a balance-of-payments problem in the reconstruction period. They can either concert policy with countries with active balances to bridge the period of transition by appropriate financial arrangements; or by state control they can restrict imports to their current ability to pay for them. The first course means having such faith in the self-propelling power of a truly international system to raise the level of activity and income as a whole, that future returns are confidently expected to exceed the mortgage on future income involved by borrowing. The second course means generalizing, and perhaps perpetuating, restrictive action to the detriment of world income.

These two possibilities are not really rigid alternatives in the transition period. To regard them as such would be to take away all significance from the period of reconstruction, the meaning of which is in the need to grapple with the aftermath of war. Extraordinary conditions require extraordinary measures. Controls which were introduced to meet the special conditions of war cannot wisely be dropped without regard to circumstances, and even the relaxation of controls may have to be contingent on the development of substitute measures, whether national or international in scope. It would be safe to admit, therefore, that in the event there will be a combination of both possibilities, the restrictive and the expansive, during the reconstruction period. The nature of the combination and possibly the duration of the reconstruction period will depend on the objectives agreed between the leading nations. But there is a great difference between restrictive measures used during the process of setting the world on an even keel again and those same measures adopted as part of the ultimate objectives. It will help to keep objectives clear if machinery for dealing with problems which are the aftermath of war can be kept separate from machinery for dealing with more enduring problems in international economic rela-

tions. A case in point is the problem of blocked balances resulting from the war on the one hand and permanent arrangements for facilitating international financial transactions on the other.

All countries which have adhered to Article VII of the Mutual Aid Agreements with the United States have declared their intentions with respect to the objectives. True, the objectives are broadly stated, not only the ultimate end, "the betterment of world-wide economic relations," but also the three more specific intermediate ends: an expansionist policy, the elimination of discrimination, and the reduction of trade barriers. This is fitting and perhaps unavoidable with respect to ends. But the practical importance of the Agreements should not therefore be scorned, for it is stipulated that conversations shall be begun at an early convenient date, presumably during the war, to determine the means to the declared ends. This is perhaps the historic importance of Article VII, that it not only creates a framework within which action may be concerted, but actually provides for considering what action to take while the war is still on. The government of the United Kingdom was the first to sign a Mutual Aid Agreement with the United States; thereby taking the first step in defining Britain's objectives.

But Article VII is a clear recognition that we must all sink or swim together. What one nation can do or risk doing depends on what the others are willing to do. It will require a well-balanced practical idealism to keep the flame of hope alight that governments will succeed where they seem to have failed in the past. I suggest that two things are necessary if we are to do our best to inculcate the right attitudes in peoples to strengthen the resolves and powers of governments. First we must not unfairly depreciate the achievements of the past in international collaboration. The interwar period was one of suspended hostilities and the failures in that brief period should not be allowed exclusively to characterize the past nor to condemn us to hopelessness forever. And second, the terms of Article VII should not be read as designed to recapture and crystallize a bygone age. Let them be interpreted as a generous receptacle ready to receive any new international institutions which by common consent are recognized as constituting positive measures for economic progress. Some such measures are already in the air: an international trade authority to hasten the process of lowering trade barriers and to regulate or resist the erection of them; an international investment authority to improve the conditions of international lending; an international financial authority to extend the advantages of central banking; and an international air transport authority. All these come within the orbit of positive measures contemplated in Article VII; and yet they would be called revolutionary by those who see revolution where others see evolution. Mistakes will be made in con-

certing action, but there will be fewer if governments can invite criticism in advance and are helped by the unbiased critical appraisal of experts.[4]

I hope that I may be forgiven if I end a paper so devoid of the concrete by recalling what is ever in danger of being forgotten, that there is no easy road to success in the solution of international economic problems. They change in form but they are always with us. Panaceas are visionary. We should be content to plug away, idealistic enough to shun defeatism, practical enough to set our sights in conformity with obstinate reality.

[4] The appraisal of the new International Wheat Agreements is an interesting example. (*Wheat Studies* of the Food Research Institute, Stanford University, Vol. XIX, No. 2, November, 1942.)

DISCUSSION

GEOFFREY CROWTHER[1] expressed substantial agreement with both papers and stated that he differed in emphasis only.

There is a tendency in some quarters to believe that economists have some formula which will absolve the politicians from working out solutions of the problems facing them. This is pure political escapism. The political must come first, though not necessarily first chronologically. Unless reconstruction can take place within the framework of tolerable political security, the economic effort will be in vain. There must be some political arrangement enabling security measures to be reduced to a minimum.

There must also be some improvement in the processes of domestic politics. Political institutions are already too much under the influence of vested interests; they must be released from this. Otherwise the economists cannot plan ahead with any security.

We are in some danger of confusing ends and means in the matter of international trade. All economists in England believe in the ends of international trade, in the maximum volume thereof, in the virtues of international division of labor, etc. Parenthetically he noted that he would go further than Mr. Edminster in the matter of sacrificing "reasonably efficient" or "security" industries; indeed, these are exactly the ones he would sacrifice. These points apply most immediately to England where the economy of manpower involved in the British system of importing half its food (especially as it provides for the maintenance of a large merchant navy) is of the greatest importance as a source of strength to Britain both in peace and in war. Along with Mr. Opie, he also rejects the bilateralists-in-principle and the new-industrialization-threateners.

But there are some doubts in Britain as to the means of attaining these ends. These spring in part from anticipation of the probable British position at the end of the war, particularly as to dollar-earning capacity. The bottom of the barrel will have been scraped by that time for reserves. And while one may believe implicitly that one's bread, cast upon the waters, will return multiplied, still one may be pardoned for hesitating to throw one's last bit of bread out when there seems a good prospect of starving before the increase returns. Out of these differences rise doubts as to when the return to liberal policies will be possible. While bilateralism is rejected in principle, the difficulties of the position cause a demand for reciprocity in the short run.

Also the desire to maintain full employment enters the picture. As a political measure, this will be a categorical imperative. He agrees with Mr. Edminster's remarks on the subject, to the end that domestic programs for full employment, which demand the establishment of controls which will wreck international economic relationships, will fail of their purpose. But he would also point out that programs for the restoration of trade which prevent the application of full employment policies will also fail.

Trade policies must be such as to prevent this. Given the British situation,

[1] Reported by H. J. Wadleigh.

where changes in the national income and prosperity levels are reflected much more rapidly in import changes than in exports, the difficulties of following a full employment policy are all the greater if it is necessary to maintain fixed exchange rates. If the full employment policy is successful, then increased import purchases result. Thus the crucial question becomes: Are the trade controls involved in such a policy restrictive enough to offset the natural tendency of increased national income to create increased imports? Only then are they to be condemned. In criticism of Mr. Opie's view that the single alternative to a free policy is "restrictive control," Mr. Crowther believes a "purposive direction" is possible. The danger of the full-employment policy becoming the bandwagon for vested interests is no greater than in the case of Mr. Edminster's "reasonable" protection policy. A full employment policy is not necessarily incompatible with the restoration of a healthy international trade.

Finally, in this whole matter, the British are entirely dependent on the United States for a lead, both because of its moral effect and because of our great material strength. Without such a strong lead, Britain can do little or nothing toward implementing desirable policies in the field of international trade.

GOTTFRIED HABERLER[1] confined himself to discussion of one point only: The widely held view, by the Keynes group in England and the Hansen group here, that the postwar British position will be so unfavorable that there will be no other way out except through trade and exchange controls, etc. While the speakers gave all the arguments necessary to refute this view, they were too diplomatic to say so expressly.

Dr. Haberler considered the various ways in which this British postwar problem may be handled:

a) Gradual depreciation of the exchange rate:

The arguments against this policy are: (1) That the pound cannot be depreciated without bringing the whole sterling bloc along with it, without bringing about tariff increases by others, etc. But this is a pessimistic argument; if it is impossible to reach agreement on a correct exchange rate, it does not seem likely that there would be much chance of agreement on a whole system of grandiose international arrangements, such as international TVA's, etc., which is what the opponents of depreciation are always advocating. (2) That the demand for British export goods is likely to be inelastic; hence depreciation will not increase demands or assist in bringing about a balance. This same argument was prevalent in the twenties with respect to German exports and reparations. But if the elasticity of demand is less than one, then the rate should be appreciated to get the right results. If it is exactly one, "that would indeed be unfortunate." But it seems impossible that such a diverse economy as the British should be confronted with an elasticity of demand of one or less, since the demand after all is for a large group of commodities.

b) Maintenance of full employment in the United States:

While this would greatly assist the British economy, of course, it is not at all sure that it would precisely bring about the balancing of British payments. At present, exchange rates are out of touch with any situation of trade freedom.

[1] Reported by H. J. Wadleigh.

Hence there must be *some* adjustment after the war, unless we would revert to the British mistake after the last war. So why not adjust correctly?

c) Maintenance of exchange control, bilateralism, etc.:

This would not be impossible for an individual country to do with benefit to itself; it might even profit greatly, being in the position of a monopolist, if there were no danger of retaliation. But such a system would have to be used with the greatest discretion (which has never yet been achieved), and other countries would have to refrain from similar action (equally ridiculous to hope for, especially from the British viewpoint). He has, in fact, never heard anyone advocating such a policy who claimed it could be employed under such conditions.

Frank D. Graham: Mr. Edminster seems to me to have made an excellent case for conclusions which he has shrunk from drawing. He speaks eulogistic words about freedom but apparently does not like the fact. For instance, in searching for means of increasing our total volume of imports, he would not sacrifice any industry which, "while reasonably efficient, is nevertheless dependent, in greater or less degree, upon tariff protection." This immediately raises the question as to what is "reasonable," and, beyond that, the query as to what is Mr. Edminster's criterion of efficiency. I submit that there is no feasible criterion of efficiency, for the purpose in hand, other than that of comparative advantage (in which case protection would be futile) and I would urge that, if we start applying a rule of alleged reason to various degrees of what are, by this well-tried standard, inefficient industries, we shall never get out of the morass that Mr. Edminster has left us no doubt we are in. Should we not frankly face the fact that we cannot possibly do international trade any substantial good unless we are ready to do harm to industries which can survive only under protection? There is, indeed, no such thing as "reasonable" protection, in the sense that Mr. Edminster uses the term. What he is really calling for is "reasonable" discrimination in a regime in which he is, ostensibly, seeking freedom.

Is it not clear that we cannot continue to cater to vested interests, in the manner which Mr. Edminster so cogently demonstrates brought ruin to international trade, and to much else as well, and yet expect to escape the sorry future day that he expressly fears will again be the outcome of precisely such a policy? Though, with something to stand upon, we might lift the world with a real lever, we shall never lift it with a broken reed. The economist, however hard he fights, may not be able to overcome economic evil, but he is surely beaten in advance if he panders to it.

I am, in this, not arguing against the retention of such comparatively incompetent industries as the political situation may require for purposes of defense. But let us not mix political and economic considerations. Defense is paramount in a world where war is an ever present menace but this is no reason for protecting industries which, neither on this nor any other sane account, can do us any good. If, after the war, we still have a warlike world, Mr. Edminster's paper is, in the main, a waste of time. If, on the other hand, a fair prospect of a substantially peaceful world should be achieved, we shall

do a great deal to mar it if we, and other countries, are committed to an indulgence in protection for all industries which by some vague, arbitrary, and elastic criterion can be said to be "reasonably" efficient. Our first task is to make up our minds as to whether we do or do not want freedom, for we cannot, in attitude, be half slave and half free. Once protection is conceded to an industry merely because it is in being, there is no point at which we can work for freedom in the realm of international trade. Instead of having mobility, which is the indispensable means to freedom, we are then committed to an indefinite freezing of the *status quo,* to the condonation of anything that has somehow or other got itself established, and, in a kinetic world, to a greater and greater deviation from a truly economic order.

In his summary of the requisites of a satisfactory order Mr. Edminster does not say exactly what he means by "stabilization of exchange rates" or the "convertibility of currencies." If, as seems likely, he means by these somewhat ambiguous phrases, fixed exchange rates and the convertibility of currencies into gold, I would strongly deny that world experience in the interbellum period conclusively demonstrates that these will be necessary to reconstruction after the present war. On the contrary, it seems to me that, so far as one can rely on the evidence of the interbellum period, one would be forced to the opposite conclusion, for it was precisely after the gold standard, and fixed exchange rates, had been widely re-established, in the twenties, that the collapse of international trade occurred, whereas its later partial restoration waited on the reintroduction of inconvertible currencies and flexible exchange rates. I would not go so far as to say *post hoc propter hoc* to this sequence, but the advocates of gold and fixed exchanges can surely do their cause no good by bland assertions, quite contrary to fact, of the type to which Mr. Edminister has apparently here committed himself.

A final word may be pertinent on the subject of postwar international finance. On this topic, Whirl, in these days as in those of Aristophanes, seems to be King, and it is a matter of regret that Mr. Edminster did not bring his strong practical sense to bear more fully upon the matter. I should merely like to emphasize that which he does, indeed, imply, that international finance must be the handmaiden of international trade and that, when she forgot her function and set up on her own account, she made a sorry mess of things. Yet one gathers that there are those who would again build for her, without any provision of access, or exit, along the avenues of trade, another castle-in-the-air destined to collapse with even greater devastation than attended the disintegration of its prototype.

FUTURE OF INTERNATIONAL INVESTMENT: PRIVATE VERSUS PUBLIC FOREIGN LENDING

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This paper is limited to observations derived from experience in lending money abroad in the form of bond issues or credits 1921-31 and to collection of those loans 1933-42 as conditions permitted. This is by way of contrast with the paper presented by Dr. Kindleberger, whose thesis is more in the field of economic theory. We agree on the main point, whether stated in abstract or concrete terms; viz., that there is need in the postwar world for extensive foreign lending. The question is, who is going to do it and how?

It would be pointless retrospectively to speak of the diatribes of the thirties against these lending operations of the twenties; but it is pertinent to note a more general criticism which appears in Carr's *Conditions of Peace*,[1] recently published and widely discussed in liberal circles in England. Carr says:

> The international financial system which flourished until 1914 is often spoken of as if it had operated to the profit and advantage of everyone concerned. This system, in fact, involved a continuous flow of loans from Great Britain and certain other countries (especially France), the repayment of which was provided for when the time came by further loans; and when this cumulative process came to an end, default was the inevitable result. The advantages of the pre-1914 international financial system were paid for in the end by the British and French investors who lost their millions in South America or in Russia. The system seemed profitable to all only because those who benefited from it succeeded in unloading the cost on posterity. The process by which Germany was enabled to pay reparations between 1914 and 1930 was no novel phenomenon, but a repetition on a small and short-term scale of the process by which nineteenth-century borrower countries had regularly been enabled to pay their debts. It is not certain that the same confidence trick can be played again. If it cannot, it seems probable that those who occupy the most privileged position[2] within any international financial system will be obliged from time to time to make deliberate sacrifices in order to make the system work; and these liabilities, like money spent on relief, must be regarded either as the discharge of a moral obligation or an insurance premium for the maintenance of civilization.

The American banker of the twenties who made foreign dollar loans would not accept the premises of this paragraph, much less its characterization of foreign lending. American loans had no political complexion. Nobody claimed they were made to take up slack in an economic cycle, or to elevate the standards of living abroad. No, they were made with the expectation of their being paid back.[3]

In retrospect may I state the assumptions—as I remember them—of

[1] Edward Hallet Carr, *Conditions of Peace*, p. 268.

[2] I assume he means the United States.

[3] It so happens that three of these loans have fallen due in 1941-42: (a) Queensland—paid in full; (b) Denmark—unable to pay principal but continues interest payments at the full rate; (c) Chile—default, except for stamped adjusted bonds, which pay a modicum of interest. This is a fairly representative set of circumstances.

the banking community during the era of private international financing 1921-31: (a) that governments which had pledged their full faith and credit abroad would protect their external obligations before all else; (b) that the postwar world could be stabilized by remedial loans well placed and well timed; (c) that the war debts would be adjusted and paid; we did not then suspect that the postwar "settlements" would result in disaster to the international financial system. So far as I can remember, the voice of John Maynard Keynes was the only one predicting collapse.

These three main assumptions were imbedded in the "free economy" tradition; the men who dominated finance could look back on their own experience 1900-14, in which international equilibrium existed in the realm of fact and in which the gold standard operated automatically.

A Brief Look at the Record

At any rate, the American banker of the twenties can claim that as far as the private investor was concerned the above assumptions proved sound as regards Great Britain, together with the Irish Free State, the Dominion of Canada, and the Commonwealth of Australia, including the States of New South Wales and Queensland; they likewise proved sound as regards France, Switzerland, Holland, the Dutch East Indies, Belgium, Norway, Sweden, Denmark, Finland, Hungary, Czechoslovakia, and Austria until the majority of the latter were overrun. Latin America, Argentina excepted, proved doubtful financial risks. There is quite a lot in this record to encourage the investment community and much to discourage it. People forget that some of the dollar bonds issued were repaid; naturally they do not forget the bonds they still hold, but the fact that some of the remaining bonds outstanding are in default leads them to assume that practically all of the foreign lending of the twenties was bad.[4]

It is just because foreign loans keep on being made that the investment banker is not yet convinced that he was entirely wrong. Since 1933 foreign lending has gone on in forms not visible to the market; for example, the gold assets of the Treasury have increased since the Joint Resolution of June 5, 1933, from 7 to 22 billions. The price increase for gold, amounting to $14.33 per ounce, has had the effect of 5.8 billions in foreign lendings. If this view is tenable, then we were making

[4] The manner of conducting the investigation of foreign lending discredited foreign bonds with the private investor and led to the assumption on the part of several South American debtor countries that the loans had been condemned by our own authorities; the underlying assumption that the war debts had been "forgiven" led to the view that these bond debts need not be taken at face value. I do not say this conclusion was officially expressed. But there the matter rested and in some cases still rests. This vicious circle of rationalization has greatly weakened the moral basis for South American credit and is still doing harm both to the debtors and to legitimate bondholders who invested in good faith.

"as if" loans but without direction; that is to say, the lendings did not improve the relationships between developed and underdeveloped countries, for the chief beneficiaries must have been the British Commonwealth and Japan. This was unplanned foreign lending.

Silver is another case where our fifty-one cent price average for foreign-mined from 1934 to 1942 has been having the effect of foreign lending. To the extent of about twenty cents an ounce, or $400,000,000, we have made foreign loans "as if." I do not extend the argument to metals purchased for war needs, because economic considerations have been kept in view.[5]

Advances made under commitments by the Export-Import Bank are foreign loans. While mainly of an economic character, the war has tended to give them political complexion. The purposes are not dissimilar in many cases to the private loans of the twenties; they are merely shorter as to term. They are held largely by private banks; the main point of difference is that they are guaranteed by a government agency. This, in my opinion, has many advantages over private lending through the market. Whether these lendings will prove better on balance than private loans is another question; it depends also on policy. Obviously the private lender is always in a weak position against a sovereign, or against an exchange control; obviously our government would be in the strongest possible position except that we are too generally in an "active" trade balance.

The half-billion dollar appropriation of 1942 to render financial aid to China is a form of foreign lending. Whether it is used or not, it has a dollar sign on it.

The point I am making is that foreign lending has not ceased just because foreign bonds have been held up to public ridicule.

The conclusion to be drawn from this sketchy review of 1921-31 and 1933-41 is that the United States cannot possibly void a large volume of foreign lending; it never should have ceased. The fault, dear Brutus, was not that our bankers made the loans; it was that they stopped making them. One need not pretend that they were all well directed, but neither can it be said that they were misdirected. The procedure was

[5] I leave out the operations of Metals Reserve, Rubber Reserve, and Defense Supplies Corporations, although Dr. Feis in his article in *Fortune*, July, 1942, points out that the assurance of a demand for strategic metals and supplies has "induced" foreign investment in countries where those supplies are being obtained.

I also leave out lend-lease operations, which are not loans in the monetary sense, and Army and Navy installations abroad, though they represent items to some extent in the nature of foreign lending. After the last war these remained with us as "war debts." But it is to be noted in passing that, as a result of lend-lease, our trade balance has moved to the debtor side. Private exports have declined to below prewar levels and our imports, although greatly curtailed, are above exports in value. Lend-lease shipments are now three-quarters of our total exports. This debtor position is one of considerable advantage in the collection of old debts where the element of financial morality is present in the debtor.

not well planned; the pace was too fast and the American private lending organization was too "democratic" or, shall we say, too competitive, to keep the rate of volume within any terms of reference.[6] Without control, foreign lending heads for trouble.

All through this period of the thirties, in which few prospectuses of foreign bond issues were visible, capital movements were, of course, taking place. It could hardly be otherwise. Direct investments continued to be made by American corporations, even though the grand total of such investments declined 1930 to 1940. In 1935 British and American industries jointly set up an important chemical and textile plant in Argentina involving an investment of 10 million dollars. A large transfer of capital to Colombia was made by American oil companies in 1937, 1938, and 1939 involving some 30 millions. Tire and rubber factories have recently moved into Argentina, Brazil, and Chile. An American mining enterprise is extending its plant in Chile; another is embarking on a new development in Brazil, jointly with Brazilian capital.

This brings us to the question: what part will the investment market and the private investor play in the foreign lending of the future? As to the investment market, if we think of this question in terms of underwritings and bond offerings, we need stop only to say that the lights have gone out; this is not news to anyone. As to the private investor, more particularly the corporate investor, this form of investment will greatly increase if stabilization and equilibrium are perceived, provided that nationalistic laws and restrictions, confiscations, taxes, etc., are not imposed. First-class corporate management on the ground can do much to abate controversies and avoid crises; but there were some very unfortunate experiences during the thirties under this heading. The investor ought to live with his commitments; absentee ownership is dangerous in the foreign field.

Given a chance to work out its own plans in a somewhat less hostile world, private capital will seek out may productive opportunities. That is one of the answers to the question, "Who?" But private capital cannot be mobilized for Panama canals, Dnieperstroy dams, vast international highways, and public utility projects for posterity. Those indeed will have to be financed by governments and fitted into a scheme of international stabilization.

The question remains: How is it going to be done?

[6] As is well known: the control of the investment market in London rests finally with the Bank of England; in the tradition of the market the issuing of foreign loans is not open to competition between bankers; banking firms hold an effective monopoly of the foreign lending within their established spheres; borrowers are thus restrained; they do not go outside their London orbit. As far as the British market is concerned, therefore, the pitcher does not go to the well too often, even though, as Dr. Kindleberger suggests, it may not go often enough.

One thing is certain: the United States Government must not try to do it all; we must avoid that state of affairs in which the United States is the only capital market open, in which, for example, London remains closed and in which foreign capital moves into the United States on demand while we acquire immobile credits throughout the world. The United States cannot avoid taking the lead, but without collaboration even we may fail.

Dr. Feis and Dr. Kindleberger both refer in their articles on foreign investment in the postwar world to the need for continuous capital flow. But they perceive that in the effort to obtain economic balance the too-ready availability of capital, even in a co-operative world such as Dr. Kindleberger mentions, may have the effect of maintaining business enterprises under government protection which are no longer efficient.[7] They do not say specifically how this danger is to be met. They say clearly enough, and it cannot be otherwise, that in the period following the end of the war international capital movements will be mainly governmental operations. Dr. Feis indicates that these movements will be controlled and decided by international action. Governmental authorities having responsibility for these matters in different countries would be expected to consult and negotiate with each other.

Would it not be a wise precaution before this point is reached to inject into these lending operations two items which have carried over from the ice age of neoclassical economics (and in which the private investor is still interested); viz., a dollar tag and an interest rate? I submit that it would be helpful to government authorities negotiating with each other to have the automatic effect of a rate of interest working to restrain outright political considerations.

As a final suggestion—again one which will help to lead the private investor to a broader view and understanding—the private investment market in London may resume foreign lending and probably at an earlier date than New York. This will depend on two factors: (a) the sterling-dollar rate and (b) the question whether the London capital market is kept open. It is said that in the year following the British war debt settlement more English capital net was loaned abroad than American capital net during the same period.[8] The issuance of securities bearing fixed rates of exchange payment in dollars or sterling, interchangeable in both markets, might be considered. It would be a step in the direction of reopening the American investment market for foreign bonds.

If the basis can be established for a stable pound, we will have

[7] A specific example: It is doubtful if the Chilean nitrate industry would have survived 1931-33 but for the large capital investment made in new plant and processes; yet the government was and is still constrained to save obsolete and inefficient plant.

[8] Garrard Winston, *American War Debt Policy* (June, 1928).

taken the initial step towards the stabilization of the postwar world. Regional planning should not delay that step; as a practical matter a stable pound will bring many choatic situations into line. It is, in my humble opinion, not too early to deal with this problem now. It is the question of first practical importance next to winning the war.

And let us not make the mistake of leaving the private investor out of the equation. A great deal of progress has been made in adjusting our defaulted bond issues—which are for the most part debts of our neighbors to the south. The present moment is most opportune for the final settlements in this field.

If there are generalizations in this short paper, I am willing in the discussion to get down to cases. In this field every item has to be differentiated and particularized.

With these suggestions I close, still firmly convinced that bankers have a part—an honorable part—to play in these great enterprises.

THE NEED FOR POSTWAR FOREIGN LENDING

By FRANK WHITSON FETTER
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I assume that after the fighting ceases, there will be a feeding and rehabilitation problem in the war ravaged areas, and that this problem will last for two or three years, possibly longer. I also assume that outlays for this purpose by the American government, whether they take the form of outright expenditures, or are disguised as loans, should be considered part of the cost of liquidating the war, and that we do not need to discuss them under the subject of "The Need for Postwar Foreign Lending." The problem of postwar foreign lending, I take it, is something of a more permanent nature, a problem that will cover a decade or more, and will take the form of advances that the lender—be it individual or government—expects to have repaid.

In recent years, with emphasis in economic analysis on the significance of investment in the maintenance of economic stability, discussions of the opportunities for investment in this or that field have provoked many heated controversies. Economists have arrived at widely divergent conclusions as to future of capitalism and on the role of government in the postwar world, because they started from quite different assumptions as to the need for investment for industrial purposes that would exist after the war. Stimulating as much of this debate has been, it often has produced more heat than light, because of the failure of the disputants to define what they meant by "investment opportunities" or by a "need for investment."

The same observation applies to the narrower field of foreign investment. A need for capital loans does not exist in the abstract, fixed and invariable; it exists only within the framework of existing economic and political institutions; and it is futile to give any statistical estimate of the need for postwar foreign lending without regard to the economic and political structure of the postwar world and to the role that American business and the American government is willing to play in that world.

To illustrate: It is easy to show that the standard of living in China is much lower than ours, and that it would take billions of dollars to finance an industrial development in China sufficient to give a radio and an automobile to every Chinese family; or to show that it would cost some hundreds of millions of dollars to develop the Brazilian steel industry; or to show that the building of a railroad network in Ecuador would require more capital than the total American investment now in Ecuador. But all this proves nothing as to the need for foreign invest-

ment in those countries, unless we also know what the prospect of financial return is, or unless we know that a government agency, either in the borrowing or the lending country, is prepared to underwrite an enterprise that private capital would not, and that this government guarantee is satisfactory to the lender.

Even if we could arrive at a figure for the capital need of, say, Brazil, China, or Turkey, on the basis of some assumption as to what the enterprises would yield, that still does not give a figure of the need for *foreign* capital. A common failing in popular, and even in professional, discussion of foreign investment problems is the assumption that the poverty or backwardness of a particular country rules out any supply of domestic capital. Whatever the estimated need may be, there is no country in the world where at least some part of that need cannot be supplied locally. In a number of industrially backward countries the principal obstacle to domestic investment is not the absence of local funds that might be invested but a scale of social values, combined with political instability, which causes the wealthy groups within the country to spend their incomes on foreign travel or on foreign and domestic luxuries. In more than one Latin-American country that is reputedly "short of capital," the sums that have been spent in Paris in the last half century by wealthy natives would have endowed the country with a modern transportation system and a well-equipped industrial plant. The same situation is found in some of the countries of the Orient.

Borrowers' need for capital cannot be considered independently of the attitude of investors. If capital is to come from private sources, it is impossible to know, in any realistic sense, what the need for it will be until we know what the supply schedule is for capital that is to go abroad. If American investors expect a 7 per cent return on their money, the need that will exist for American capital in India, Bolivia, or Africa is quite different from what it would be if 2 per cent were a sufficient inducement to tempt their capital abroad. I do not believe that even the most ardent Keynesian would explicitly deny this, yet implicitly much, perhaps a larger part, of current discussion of investment needs assumes that one can measure these needs as definitely as one can measure the capacity of a container.

Investment need, in a capitalist world, is the prospect that businessmen have to use capital—either their own or borrowed capital—to yield the going rate of return; or at least—and this may be far more important—of persuading prospective investors that they will get the going rate of return. In the field of loans to governments, the need is somewhat different than in the case of loans to private parties or equity investments, but from the investor's point of view the situation is

essentially the same: he will not lend money unless the expectation of return conforms to some standard that he has set up in his mind.

In the world of affairs, frequently there is, as many an investor knows, a difference between what the investor thinks he is going to get and what he actually does get. The concepts of *ex ante* and *ex post,* made familiar in recent years by Swedish economists in connection with the relation between saving and investment, can be appropriately applied to the question of the need for investment. No financial investment is made, unless *ex ante* it conforms to the investor's minimum standards of yield or prospect of speculative return. In the *ex ante* sense, except as fraud exists, all investments that are made are automatically needed, as shown by the fact that they are made. But *ex post,* a substantial part of the investments of the last hundred years—in particular foreign investment in new countries—was not needed, in the light of the high profit expectations that investors had, in the sense that if the investor had known what the outcome of his investment was going to be he never would have made it. This was true of much of the early canal and railroad investment in the United States and of many of the public and private long-term investments in Latin America, of most of the investments in Czarist Russia, and of much of the investment on the European Continent since 1920. That is to say, judged by *ex post* capitalist standards, there was no need for much of the foreign investment of the last hundred years. Regrettable as this was from the point of view of the investors, it was often highly advantageous for the countries where the investments were made, and perhaps for the world at large.

My discussion to this point has dealt with private lending and it has related need to the decisions of private parties and to the profit motive. A critic may raise the question: is there not a need for foreign investment, even though no business opening, or promise of a foreign corporation or foreign government, will tempt the cautious American investor to risk his dollars abroad? Quite obviously, the word need in such case is used to mean either a moral obligation of the American people to less fortunate parts of the world to furnish capital that private parties refuse to furnish or to mean an action thought necessary to carry out an economic or political policy of the American government. The tests of need in this sense have no exact basis of measurement, but in the last analysis will be determined by the willingness of the electorate and of Congress to support such a lending policy. If Congress appropriates a billion dollars to a developmental corporation and if borrowers can be found on the terms laid down by Congress, that indicates a need for that much foreign lending by the only tests which have any meaning in a democracy. And if a new Congress repeals the legis-

lation after only half of the sum has gone abroad, there is by the same tests, no longer a need for that unspent half billion. Any attempt to go further in the definition of need becomes involved in all the complexities of the economic and political policy of modern governments, and all one can do in a short paper is to point out what the problem is.

In pointing out that the need for such governmental investments is of a quite different type than the need for private investments, I fully recognize that there are conditions when such noncapitalist investments can properly be made, for I am not taking the position that need in the capitalist sense is the only type of legitimate need, or even the best test of need. Private investors may be quite mistaken in their judgments as to what physical productivity and monetary conditions will make possible in the way of yield; and even if they judge the situation correctly from their individual interests, it does not necessarily follow that their individual interests and the public interest are the same. But for clear thinking on the subject it is essential that we differentiate between need which meets the financial test and need which meets the political test. Unless such a differentiation is made, any discussion of the subject will have little meaning.

There is no doubt that in the postwar period there will be a great need for foreign investment—in the sense that foreign countries will be glad to receive capital as a gift, or through an international lending organization that makes no serious pretense of expecting repayment. In this sense the need will be limited only by the willingness of the lenders to supply the funds, and the need will continue as long as funds are forthcoming. But need in the sense of a willingness to meet the investors' demand is quite a different thing, and with recent experiences fresh in mind it would be most surprising if after this war any such need—in the *ex ante* sense—for foreign capital develops as did after the Napoleonic Wars and the first World War. That need, *ex ante,* was based upon the lure of unsettled or undeveloped areas, and a tacit assumption of an international economy, both with respect to the flow of goods and to the treatment of foreign investors. This situation is not likely to be present in the next postwar period to anything like the extent that it was before. If that is the case, the future *ex ante* judgment of need is likely to be much closer to the *ex post* need of earlier periods, as expressed by what the investor got, than to the *ex ante* need that caused the great capital flow in the century after Waterloo. In other words, investors will have little capital to furnish in the light of the sanely estimated profit opportunities that will exist abroad, unless the long-term interest rate in the domestic market is at a very low level. If a permanent 2 per cent interest rate on long-term private investments ever becomes part of the economic order in the United States, that

PLANNING FOR FOREIGN INVESTMENT

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I

Following the last two great wars—in which Napoleon and the Kaiser played the role of villian so consummately filled by Hitler to-day—great resurgencies in international investment took place. History is full of parallels—and by crude analogy a wave of international lending will follow on the heels of United Nations' victory over the Axis. The crude analogy deserves little scientific respect. It is none the less worth pointing out that the similarities of the forthcoming postwar situation to those of the past may prove as important as the differences.

This paper is not concerned with relief and stabilization loans. Yet aside from this immediate sense, war is a consumer of capital in belligerent countries and in neutrals cut off from customary sources of capital and consumer goods imports. At the same time, war expands capacity in capital goods industries in many countries. England was the outstanding gainer in this respect in the Napoleonic Wars, the United States in World War I, and perhaps Canada, Australia, and some country still a dark horse in the present conflict. More important than the deferred demands for capital goods pent up by the war, and the expansion in the means to satisfy them in a few countries, the concentration of productive energy upon the tasks of war leads to the development of new industrial techniques, new products, new demands for them, and new derived demands for materials in the subsequent period of peace. The uneven distribution of the world's resources in the face of the need to develop new sources of supply has in the past given a further impetus to international investment.

There is, however, considerable doubt whether the pattern set by the two earlier wars will be followed at the cessation of present hostilities and the close of the period of relief and immediate reconstruction thereafter. In the first place, there appears to be general acceptance of the idea that relief and reconstruction immediately following the war will carry further than on previous occasions and will be treated as a cost of the war; i.e., will not give rise to burdensome war debts.

Secondly, the opportunities presented by wartime technological advance appear at this stage of our knowledge to point toward domestic rather than international investment. Ersatz materials in numerous fields threaten to replace natural products; industrial countries with access to coal, air, and water need no longer depend upon overseas areas for oil, textile fibers, or rubber. New efficiency in the smelting of low

grade ores, which are relatively abundant over the world's surface, may weaken the bargaining position of and reduce investors' interest in relatively undeveloped countries with rich natural resources.

Finally, the less advanced countries are for the most part no longer passive recipients of investment by industrial nations but are rapidly developing a full set of ideas and prejudices about the role of foreign investment. Earlier, the bulk of the impetus for investment came from the investor, who sought out resources for development or built means of communication to make such resources available to established markets. In recent years, considerable foreign investment has taken place in lieu of foreign trade, as tariff barriers were erected by debtor countries to encourage the development of local industry.

Immediately before the war, however, a distinct change appeared in the attitude of undeveloped countries toward new investment. Instead of passive acceptance, they were prepared to substitute active acceptance on their own terms or active rejection. At the same time, many of the undeveloped countries became resolved to increase their productivity and the standard of living of their peoples: This process evidently requires capital and might be interpreted as making them more dependent upon foreign investment. In point of fact, however, they have discovered an alternative to dependence on foreign loans in default—controlled inflation and foreign exchange control. The U.S.S.R. blazed a trail in this direction after 1917, undertaking to build up an enormous capital goods industry—happily for us, including a large amament industry—without the benefit of the investment banker. Other countries, with fewer and less balanced resources, have been forced to submit to much the same experience in a minor degree by the deepness of the depression reached ten years ago.

The present war has made at least temporarily respectable the various elements in the new financial technique—price control, rationing, foreign exchange restrictions, etc.—and has impressed on the whole world the current truism that what is physically possible is financially possible. Foreign goods may be needed to increase productivity in an undeveloped country in accordance with some long-range plan for economic betterment. Money as such need not be borrowed from abroad simply to balance a budget.

The key to the future pattern of foreign investment and the need to lay down principles for its guidance stem mainly from this fact: the countries of the world which have a relatively low standard of living are almost without exception determined to raise that standard. They can do so with the aid of foreign investment, or more slowly and at greater sacrifice of present consumption standards; without it, however, the industrial countries of the world with a relatively high stand-

ard of living, on whom the responsibility for constructing a world economic system rests, are obliged to promote the flow of capital from developed to underdeveloped countries.

II

Professor Fetter has discussed the need for foreign loans in terms of the factors affecting the demand schedule in borrowing countries and their reflection in market phenomena. Yet a more fundamental need may be said to exist. The world economic system is due to move from regional specialization to regional balance. The development of industry and basic utilities, such as transport and power, can proceed in the agricultural and raw material countries of the world on the basis of foreign loans, repayment for which can be made out of the productivity of the large-scale investments; or it will be sweated out of the low standards of living of most of the countries concerned in an autarchic world of trade strife and conflict.

My reason for stating that specialization must give way to balance is simply that the risks of specialization are too great. Static economic theory has few lessons for modern political economy. A comparative advantage in natural silk, nitrates, or rubber, or an economy founded on coal and steam may be of fleeting profitability. Inexorably, too, the terms of trade move against agricultural and raw material countries as the world's standard of living increases (except in time of war) and as Engel's law of consumption operates.[1] The elasticity of demand for wheat, cotton, sugar, coffee, and bananas is low with respect to income. If the agricultural and raw material countries of the world want to share the increase in the world's productivity, including that in their own products, they must join in the transfer of resources from agriculture, pastoral pursuits, and mining to industry. If specialization in international trade be adhered to, continuous international migration would be required comparable to the move from the cottonfields of the South to Detroit, or from the "Dust Bowl" to the airplane factories of Southern California. If international migration on a vaster scale than that from Europe to the United States in the first thirteen years of the century is impossible, then balance up to a point is to be preferred to specialization in international economic relationships.[2] International

[1] Colin Clark claims (in *The Economics of 1960*) that the terms of trade will move against industrial products and in favor of foodstuffs and raw materials. This view assumes that resources will move into industry from basic materials at a faster rate than they are driven out of the latter by low prices. This eventuality might be achieved by 1960 if the wastefulness of war lasts for many years to come. Otherwise, the only hope for a slackening in the long-run decline in basic material prices is a thoroughgoing industrialization of agricultural and raw material countries.

[2] There were numerous portents before the war that the trend within the United States was for more regional balance and less regional specialization. Migration on a limited scale

trade will continue, since a rough balance of the allocation of resources among agriculture, raw materials, and industry does not mean duplication of output. It is unnecessary to quote the trade statistics to support this view.

The underdeveloped countries are aware of the dynamics of the future. Like Russia, many of them adopted long-run plans for development and industrialization—for the most part during the thirties when foreign capital was inaccessible to them. The exigencies of war have reinforced their determination to buttress their economic futures more securely against the cold winds of dynamic change. The industrial development of the relatively backward countries of the world could proceed as a world undertaking, resting fundamentally on international loans. Without a continuous flow of loans, an international economic system cannot be constructed.

III

The effects of Engel's law on international trade can be examined from the point of view of the United States. During the twenties and thirties, this country was roundly criticized for failing to "act like a creditor nation" and develop a passive balance of payments on current account. This point of view was wide of the mark. United States tariff schedules were open to attack on the ground that they kept the standard of living in the United States and abroad at a lower level than necessary. A lower schedule of import duties, however, would not have corrected the tendency for the balance of payments on current account to be active. Because of the high elasticity of demand abroad for United States industrial products, an increase in sales to the United States resulting from a tariff reduction would quickly be offset by an equal or greater increase in foreign purchases of automobiles, typewriters, refrigerators, machine tools, agricultural implements, etc.

The world "chronic shortage of dollars," of which so much has been heard abroad, is basically ascribable to the United States' failure to lend abroad more abundantly, or rather more continuously. If Britain had tried to stop reinvesting her current-account surplus during the nineteenth century, a world chronic shortage of sterling would have resulted. At that time, the demand for British goods was elastic with respect to income in a world with rising real income. Today, or rather before and after this war, this position has been and may be expected to be occupied by the United States. The general public and, belatedly, most economists have learned that the adage, "Don't throw good money

is a continuous process in the United States, as young people move from home to a locality dictated by their occupation or choice of occupation. Large-scale migration, however, is too expensive. The solution for the problem of the South, that is, is neither parity for cotton or depopulation, but agricultural diversification and industrialization.

after bad," does not apply in domestic deflationary crises. When the unemployment and monetary hoarding deflate Detroit, the rest of the country, through the government, makes loans to Detroit banks and gives work relief to Detroit citizens. Equilibrium in international economic relations similarly requires that good money be lent after bad. Creditor nations must lend abroad continuously until productivity in other countries has increased to the point where the demand for the lenders' goods is reduced in intensity. When this point is reached, the creditor country can act like a creditor and cultivate a balanced current-account position.

The evident improvement in the distribution of the financial burdens of war which has been introduced by the lend-lease principle has led some observers to call for the continuance of lend-lease, not only for the period of relief and immediate reconstruction just following the war, but for all time. There is some merit to this view. It involves a recognition of the position outlined above—that current accounts in balances of payments between specializing countries cannot be expected to balance in a dynamic world and that there is a fundamental need for means of payment which will permit countries with greater productivity at a given time to make some portion of their fruits available to others. Yet there is a distinct danger in the proposal. If lend-lease aid or gifts enable a country to maintain a standard of living above the level which can be maintained by its productivity, they would constitute a pure dole. Industrially advanced countries should build up current account surpluses and the undeveloped countries deficits in order to narrow the gap in productivity between them. In market terms, there is a need for foreign capital in the borrowing country expressed by its willingness to pay a higher price for capital than the going price in the lender. In real terms, capital goods can be more productive in the backward than in the advanced country.

So long as surpluses and deficits in balances of payments are financed by lend-lease or gifts, the importance of the productive character of the transfer of value runs the risk of being lost to sight. No amount of development loans or undertakings will relieve economies of the necessity to liquidate industries and transfer resources—although in a world cooperating for industrial development of backward or depressed areas such transfer can take place with greater facility. Settling surplus and deficits by gifts would perpetuate uneconomic production. A truism which we run the danger of neglecting is that the path to increased consumption lies through increased production.

IV

The necessity to plan international investment is, therefore, first of all, the necessity to plan to have it. Considerable opportunities await

the private investor in the international field, once he has been assured of the stability of international economic relationships and once he has become accustomed to the idea of dealing in a foreign country under the laws of that country.[3] As I see it, however—and this opinion appears to have the support of Mr. Schoepperle—the private investor is not in a position to undertake the first task; namely, the provision of large blocks of capital for major development undertakings. Major development investments were made by private capital in virgin countries, it is true, but it is hard today to justify the wastefulness of the procedure. (The great railroads in the United States, it will be remembered, were made possible only because of lavish land grants, and frequently resulted in costly duplication of service and effort.) In the redevelopment of countries already exploited by private interests, however, the economical procedure is for government to direct the development undertakings, on a scale sufficiently large to be effective. The Tennessee Valley Authority, the St. Lawrence Seaway project, Boulder and Dneiperstroy Dams, the control of the flood of the Yellow River, the steel industry in China, the unification of the Australian railway gauges, the development of roads, railroads, electric power and irrigation in the Balkans, etc., may be cited. I refrain from inclusion of Vice-President Wallace's eight-lane highway from Patagonia via Nome and Siberia to Paris, with feeder lines to Singapore and Cairo, on the grounds that I cannot decide whether it would be productive.

If it be agreed that a large flow of loans is required to provide the basis for stable international economic interrelationships and that these loans must contain their own means of repayment by being devoted exclusively to the task of increasing productivity in the borrowing countries, it can be agreed that the fluctuating and often limiting standards of the private capital market cannot be applied to them.[4] In the twenties, loans were made for many purely fanciful enterprises at relatively low rates of interest and without provision for amortization; in the past decade, 100 per cent cash collateral and five-year amortization were hardly sufficient.

[3] I am far from convinced of the practicability of attempting to establish an international law of investment, which will provide the prospective investor with international guarantees to protect him from the laws of the country in which he is dealing. Foreign investments in the United States, the United Kingdom, Canada, Switzerland, etc., are subject to the laws of the United States and so forth. Extraterritoriality for foreign investments would not be granted by the creditor nations; I see no reason why the debtors make a similar sacrifice of sovereignty. But in this, I stray from international economics to international law, where I have no business.

[4] Mr. Schoepperle has complained that the bulk of loans historically has not been repaid. It is not clear to me whether he suggests that they cannot be repaid under any circumstances or whether he would agree that many of them have been devoted to other than productive ends; and even those which were productive have frequently been imperiled by fluctuation in international economic relationships which might have been reduced by more loans.

Moreover, many of the most productive undertakings requiring foreign capital investment may not earn a return in the narrow market sense, since their benefits are spread widely through communities. The Panama Canal has enormously increased the productivity of California, the northwestern states, and British Columbia, but the cost of the enterprise is not apportionable against the individuals who benefited. The government is appropriately the borrower for such large-scale projects, as government is appropriately the lender.

There is evident need for machinery to ensure a flow of loans from developed to undeveloped countries in sufficient measure to provide the basis for international stability sought for. As an economist, I think I can defer to the politician to devise the appropriate institutions, albeit suggesting that the institutions be truly international, self-perpetuating, manned by disinterested experts, but broadly responsible to the will of the peoples concerned. If this be a tall order, I do not think it an impossible one.

Within the framework of the relative stability introduced by large-scale intergovernmental development loans, there is ample room for private investment, entrepreneurial ingenuity, and perhaps on a modest scale, "empire-building." The further extension of the branch plant system throughout the world is a long-run inevitability. These plants must be subject to the laws of the country in which the investment takes place, as is the case of American branch factories in Canada, the United Kingdom, France, Germany, Switzerland, and a host of other countries. The proposal to provide intergovernmental financial guarantees for private investment in return for the internationalization of sovereignty over such investments runs counter to our best political traditions and strikes far too pessimistic a note over the prospects for equity capital in various parts of the world.

If time permitted, it might be stimulating to analyze a number of knotty aspects of an international developmental loan operation: how would productivity be defined in order to qualify for a loan from the international development authority or whatever institution was created to perform the function? Should the value of the loan be limited to the amount of foreign exchange the borrowing country is required to spend abroad, or should it be assumed that the investment would produce some degree of inflation so that additional foreign exchange would be required to maintain the balance-of-payments position while the investment was being undertaken? Where a borrowing country had little savings, and fiscal machinery inadequate to raise its portion of the required capital, would it be advisable to permit foreign exchange and import control (contrary to the letter of the Atlantic Charter) to ensure that the inflation brought about by the domestic investment involved in

the operation did not permit higher consumption standards during the period of the loans? What criteria should be laid down for loans to ensure their ultimate repayment in foreign exchange; i.e., what if any relationship should exist between the productivity of the project and the country's prospective ability to sell abroad or need to buy abroad? What limits should be set to the period of time in which the productivity of the project should be realized in sufficient measure to enable repayment to be made? What about the possibility of default, of transfer difficulties, etc.?

It may appear from this spate of questions that this paper has inadequately dealt with the problem set by its title. Yet once it is agreed that foreign investment on a considerable scale is the *sine qua non* of international economic stability, answers to these come forth readily enough. The main hurdle is the decision whether the industrially advanced countries should invest in the future of the world by making capital available to undeveloped or underdeveloped countries seeking to realize their potentialities for production of the goods consumed on a modern high standard of living. If no such flow of productive capital takes place—whether in the form of loans or gifts is immaterial to the present analysis—development will go forward, more slowly, less surely, with greater cost to the low standards already existing in these countries, and with no possibility of constructing a network of stable international economic relations. If it be agreed that the flow of such capital is a prime requisite of the future peacetime world, the planning of the details of the future international investment can be undertaken forthwith.

DISCUSSION

ROBERT L. HALL: International investment has a rather dry sound, but it is one of the really important problems which we have to face after the war, and it raises two questions which seem to me are of urgent practical importance: the relation between controlled or collectivist economic system as opposed to the prewar relations which were still determined to a considerable extent by individual decisions; and the relation between business cycles and investment generally.

What we should all like to know, I suppose, is what kinds of political systems and relations there will be after the war, since there can be little doubt that these will have great influence on the economic field. I cannot say that I am disappointed that neither Mr. Schoepperle nor Dr. Kindleberger indulged in much crystal-gazing, but it would have been very gratifying if they had felt able to do so.

I am not going to run any risks in this direction myself. Both Mr. Schoepperle and Dr. Kindleberger agree, however, that foreign lending will be *desirable* after the war, and both agree that there should be some form of control, and what is extremely likely, that whether there ought to be or not, that there *will* be control. Both agree that the danger of doing it by government control is mainly that the ordinary checks on productivity, provided by prudent investment policy and the sieve of the rate of interest, may be lost sight of. I should like to make a few remarks on what I consider to be the main problems.

First, to what basis should we look for economic relations between countries whose economic policy is determined largely by government policy? The difficulty—which is fundamental in economic theory—is that there is no obvious equilibrium point when relations are between a small number of units, since there are a large number of positions which are of advantage to both sides. This is brought out very clearly in Professor Fetter's discussion of the supply-demand relationships for foreign investment, distinguishing the "financial" and the "political" test. All the speakers this afternoon point out that loans will not be made unless someone is willing to make them, but with controlled economies it seems very certain that all sorts of considerations will come in besides the expected return to the lender, which on the whole gave a good deal of regularity to foreign investment before 1914.

If we assume, then, that foreign lending is to be controlled to a large extent by political considerations, we must look forward to the world the late Professor Edgeworth described, where there is no function for the theoretical economist because of the chaos of monopolistic relations. This seems to me to be tremendously important: we will probably all agree that some kind of economic stability is one of the essentials of the postwar world, but if we cannot assume that wealthy countries will make loans to backward ones, or the conditions which Mr. Schoepperle pointed out were the assumptions of private international finance, especially the sanctity of government pledges—if we cannot assume these, what is our policy going to be? Whatever it is, I agree with Dr. Kindleberger that there will be a large field for the develop-

ment of backward countries and that the experience of the nineteenth century shows that on the whole free lending is beneficial both to the borrowing and the lending country. But we have all seen the harm which was done, to take an extreme example, by German policy on economic international relations in the thirties. If lenders attempt to use loans as an instrument of policy in any narrow sense, it will almost certainly mean changes of policy with changes in government; and probably changes also according to other varying circumstances. In the same way, if borrowers are to default or use the threat of default for any other reason than extreme economic difficulty, they cannot expect to receive loans on regular terms. There was a good deal of virtue about the old method by which defaulters got no more loans and those who paid got more. At least everyone knew where they stood.

I do not altogether agree, therefore, with Dr. Kindleberger that foreign investment is a *sine qua non* of international economic stability. But I think it would be very desirable and that an agreed and consistent policy *is* a *sine qua non.* It seems almost too much to hope for that there should be the international development authority of which Dr. Kindleberger spoke. But if we are not to have complete instability, we must have some sort of international agreement to follow a common policy.

It might seem from my remarks so far that a return to private investment would offer more hope than the risks of publicly planned investment when we still have to solve the major problem of international political co-operation. This is not my opinion.

Dr. Kindleberger and Mr. Schoepperle both point out that a continuous investment policy is necessary if we are to avoid recurrent deflationary crises. The alternation of boom and slump is to me the feature of the capitalist economy which is most open to reproach. One wonders what one's descendants will think of countries like the United States or Great Britain which have constantly allowed large portions of their resources to stand idle while their populations were suffering serious deprivations, and the present war has shown us once again how much full employment compensates us for the diversion of so much of our resources to the waste of war. The major economic problem after the war will be the control of the business cycle and I do not believe that it can be done except through conscious control. The volume of savings which are made by our countries in periods of reasonably full employment is enormous, and unless we can find an outlet for them they will be reduced by a general reduction of income.

It is common ground that private international investment is an important factor making for instability in the business cycle. And this must always be so if the choice is left to the private investor's estimate of probable yield, which will be alternately overoptimistic and overpessimistic. I would not go so far as to say that no foreign lending would be better than lending in phase with booms and slumps, but it is somewhere near the truth.

From this point of view, I feel that all the speakers have placed too much emphasis on the yield factor. If John Bull or Uncle Sam cannot stand 2 per cent, then they will have to stand depressions. This seems to me to be the overwhelming argument for planned international lending: it will help to

provide an outlet for the savings of wealthy countries while it increases the productivity of backward ones and ultimately the wealth of us all. It will be necessary for whatever body is in control of investment to use some estimate of yield in deciding the broad outlines of policy; and I agree that loans which are not productive may have the demoralizing effects of all doles. But the more factors other than the direct monetary yield are taken into consideration the better; and in the end, will it matter if the loans are not repaid? I belong to the school of thought which believes that an unproductive investment is better than no investment at all, and that the resources lost in a slump far outweigh those which are lost because of misdirected use of them in a boom.

For these reasons, then, I think that foreign investment has a great part to play after the war; that it can be most useful if it takes place on a long-term plan; and that our only hope of securing this is through some form of public control. Whether we shall be strong enough and wise enough to secure this, we must leave to the future for an answer.

MICHAEL A. HEILPERIN: Since none of the three speakers denied the importance of resuming international investment after the war, there is no disagreement about this fundamental question. There is, however, ample scope for developing further this point or that and for introducing into the discussion elements which were either left out or given insufficient attention by the authors of the principal papers.

In the first place let us envisage the reasons why there is need for foreign investment. The definition of need used by Professor Fetter, even though he does not formulate it explicitly, leaves much to be desired. What need seems to mean in his paper is simply "effective demand." This is not a usual way of using this term in economics, nor is it a helpful innovation. If we define needs for certain goods according to one set of standards and confront them with effective demand for the same goods, we can draw important implications from it. In the case under consideration, needs for foreign capital which cannot be satisfied in the market because the effective demand at the market price falls short of the need may have to be satisfied in a different manner, such as is suggested, for example, by Dr. Kindleberger in his paper, or through lend-lease. It is then of great importance to find adequate criteria for the definition of need, and here none of the three papers is of real help, though Dr. Kindleberger has some contributions to make about it, implicitly at least.

Let us try to get nearer the heart of the problem by assuming that there will be no foreign investment whatever after the war. What will follow? As regards the destroyed or underdeveloped countries, they will have the choice between long-period stagnation, on very low living standards, until the process of voluntary, spontaneous saving has produced a supply of capital sufficient to give a strong upward lift to their economic development. Or they can adopt measures of state-planned saving and investment policy, combining into one pattern of centralized planning the maintenance of high working standards, long hours, the maintenance of low standards of living regardless of the efficiency of production, and inflationary credit policies, combined with the strictest price control, under the protective wall of complete foreign

trade control. Such experiences are familiar from the Soviet case, and to a certain extent have been reproduced in Germany, Italy, and Japan. What must be noted, however—and this point has not been emphasized by the authors of the main papers—is that such an economic development implies the setting up of totalitarian social regimes.

As regards creditor countries, let us first turn to the United States. The American war economy is not only geared to heavy industry but is geared to a vast world market as well. When the war is over, the transition will be made much easier if it can be accomplished in the world market at large, not in the much more limited compass of the domestic market. This point cannot be developed here as fully as it should be, on account of limitations of space and time, but it deserves very careful attention. It may be doubted whether an attempt at a purely national solution would not launch the United States very far along the road to state socialism. Concerning Great Britain, her balance of payments problems after the war will be much more easily overcome in an expanding world market. Left to her own devices, in a shrinking market, Britain may also find it difficult or even impossible to avoid stringent governmental controls of economic life, both at home and with respect to her foreign trade.

Thus there would appear a strong need for an expanding world market in the interest of social stability and of the survival of liberal institutions. This is not a purely economic motivation, but then social and political considerations are inextricably interwoven with economic ones in the complicated pattern of a peaceful world.

Connected with the foregoing comments is the question of *who* is to invest abroad—private capitalists or public agencies? It was very comforting to note that both Mr. Schoepperle in his paper and Mr. Blair in the discussion have expressed their conviction that private investors would come back, in due course, into the field of international investment. If one attaches importance to the survival of free enterprise and of a free market system (which are both necessary, it seems to me, for the operation of a democratic society), then this assurance is very valuable and important. Nevertheless, it is to be doubted whether the prospective rewards to be obtained from foreign investment will, in the first postwar years, compensate the risks which will be involved in the transactions. Also, the prospective debtor countries will need a good deal of initial stimulus to set their economic development under way before they can offer attractive opportunities to private investors. One can doubt, furthermore, whether there will be any substantial amount of "adventure capital" which helped in the past to open up new areas of investment. Hence the need for public investment such as has been carefully discussed in Dr. Kindleberger's paper. There is much discussion these days of "development agencies" which would aim at the accomplishment of just these tasks. Undoubtedly they will be needed. But as their work reaps results, private investment ought to set in and gradually take up more and more of the total value of new investment abroad. Whether it would be direct investment or bonded debt or some new forms of investment, remains to be seen.

The foregoing could be put in another way: public investment would tend to lay the foundations under the economic development of underdeveloped areas. In doing so, it would gradually increase the marginal efficiency of capital in these areas as well as decrease the risk premium on new investments. (The latter calls, also, of course, for political arrangements in the realm of collective security, which cannot be discussed here.) Once the marginal efficiency of capital reached such a level as would attract private investors, these would come into the picture.

One final comment: It is in the interest of the postwar readjustments to make them in as wide a market as possible. In a growing tide of world trade, full employment will be easier to achieve without a surrender of the basic economic freedoms, of enterprise, choice, and decision. And the way of achieving that expanding world market is through large and sustained foreign investment. The question of repayment must not be left out of sight either. It would not be possible at this date to say what goods the debtor countries would eventually sell abroad and to whom. The important thing is, in the years to come, to establish and preserve a flexible and adjustable trading system in the world. This involves the suppression of exchange control and quotas, and the stability or downward movement of tariffs. These matters are dealt with in other papers than those discussed here. If properly solved, they will help the achievement of international solvency. From the point of view of solvency, Dr. Kindleberger's emphasis on the productive nature of investments is particularly to be welcomed.

JOHN PARKE YOUNG: Foreign investment has played an important part in the development of much of the world and, through some means or other, we know will continue. The question is how this will, or can best take place, through what means and under what conditions and controls? To what extent shall commercial tests be applied?

In the past, investment has been left largely to private initiative and to the whims of the market. This system did not function satisfactorily, and under conditions of international disorder is especially inadequate.

Until recently, interest in foreign investment centered largely around the soundness of the loan and its possible political implications. Today we recognize that foreign investment has many other significant aspects, such as the effects upon price and exchange relationships, upon the flow of trade, internal production, as well as upon full employment and general stability. The last two decades have shown how political stability must rest upon economic stability, which is intimately related to the flow of investment.

Mr. Fetter has given a clear analysis of what is meant by the need for investment in terms of the market mechanism and the price system—the tests of the market place. It is well that we keep this approach constantly in mind as a sort of anchor to windward, and to prevent us from drifting too far away. Nevertheless, as he recognizes, much of the benefit from foreign investment cannot be measured narrowly in terms of interest yields and capital amortization. Furthermore, this approach implies a smoothly functioning

long-term capital market and a competitive situation which do not exist. Commercial lending based upon business standards, therefore, needs to be supplemented, on both economic and political grounds.

If we assume that government lending is going to supplement, and in some areas replace, private lending, the problem confronting us has to do, among other things, with methods of determining, once we break away from commercial tests, where capital should be placed, the machinery by which it is to be placed there, the volume and timing of such foreign investment, and its co-ordination with monetary and fiscal policy. In addition is the matter of the regulation of private investment and its adaptation to public policy.

Entry of government into the field of international investment means that decisions must be made with reference to the matters mentioned. These decisions require the formulation of objectives and the development of procedures and techniques. In devising investment machinery, moreover, it is necessary to fit plans into what public opinion will accept and into the international political order which prevails.

Here we find wariness and caution in the United States, especially if the benefit to the foreigner is clear but the benefit to this country indirect. In foreign countries, on the other hand, we find a desire to receive foreign money but opposition to foreign control or influence.

Some foreign investment, especially during the immediate postwar years, will have to be on what amounts to a charitable or humanitarian basis, although even here much of it will be of benefit to the United States; other investment will return definite benefits, but not of the kind that are susceptible of precise statement in a balance sheet or that would constitute an adequate return to private investors. There remains a large area for investments which should be tested according to commercial standards and which, with proper safeguards, can be left largely to private enterprise. Private enterprise, however, will not be interested in foreign investment unless the international order is stabilized and excessive restrictions abolished. If economic warfare should continue, foreign investment, whether private or public, would not have an easy road.

I would like to see analyzed concretely just how foreign investment is to proceed and be pointed toward some of the newer objectives, how the best of private foreign investment can be retained and be regulated so as to fit into the international scheme of things and into programs that are publicly acceptable, both here and abroad.

Floyd Blair[1] stated that the most striking omission of the speakers was failure to bring up the question: How can the basis of future foreign investment—private or governmental—be discussed without deciding first how we are going to straighten out the mess left from the last war and the financial questions carried over from this one, such as lend-lease, Export-Import Bank loans, etc.

The application of some of the principles of the last debt settlement may be

[1] Reported by H. J. Wadleigh.

helpful in the future situation, since some kind of adjustment will have to be made sooner or later.

The first World War Debt Commission attempted to work on the basis of the following principles: preservation of the principle of sanctity of obligations by the debtors; removal of the debts as a source of international friction; limitation of payments to a nation's capacity to pay, and also without making the payments too large to permit the maintenance of a sound financial basis and the improvement of its economic position.

Another factor in the settlement of the last war's debts was the reluctance of many of the debtors to talk over their settlement; e.g., Belgium. To put pressure on these countries, the Treasury finally developed, with the State Department, the policy of requiring foreign borrowers in the United States market first to obtain a "no-objection" clearance from the government.

These problems will arise again after this war, sooner or later. Regardless of political changes, the debts of this war will have to be adjusted and new investment opportunities looked for abroad eventually. This time we will have better knowledge and more governmental control than last time. Before we can go ahead into the postwar period very far, however, we must be sure to put solid ground under our feet.

Mr. Blair also brought out that the American record in foreign lending is not as bad as many believe (a psychological attitude chiefly due to the investigations of foreign bond holdings). But these actually show that about 50 per cent of the foreign loans were repaid and a good bit of the rest repurchased by foreigners at varying discounts. The record compares favorably with much domestic financing, especially in the case of the railroads, for example.

THE ECONOMIC IMPLICATIONS OF LEND-LEASE

By Eugene Staley
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At the time the Lend-Lease Act was passed (approved March 11, 1941) it represented nothing less than a stroke of political genius. By permitting the President to "sell, transfer title to, exchange, lease, lend, or otherwise dispose of" any "defense article," within certain limitations, to the government of any country whose defense he deemed "vital to the defense of the United States," it cut through the meshes of neutrality and isolationism. By prescribing that the terms and conditions for lend-lease aid "shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory," it armed the President with power (not yet used) to make settlements without again throwing the war debts issue into Congress and to include in these settlements nonfinancial considerations. This grant of power, if used wisely and in time, will make it possible to prevent the economic and political poison of uncollectable debts from rising again, as it did after the first World War, out of co-operation against a common menace.

But times have changed since March, 1941. Then we talked of "aid to Britain," and the people of the United States were still undecided on the extent to which their interests were really involved in the fight against the Axis. Now we are fully in the war, fighting not merely with supplies but with men. Admirable as the lend-lease device was when adopted, it is in some important respects anachronistic today.

Lend-lease will be considered, first, as a method of wartime supply allocation; second, as a method of accounting which may create inter-allied debts and may affect the ultimate distribution of the economic burdens of the war; and third, as a system possibly applicable after the war to problems of international relief, reconstruction, economic development, and trade.

Wartime Supply Allocation

With respect to lend-lease methods of allocation, it may truly be said on the positive side that, as one of the lend-lease reports puts it, "Long strides have been made toward achieving the unified direction necessary to put the combined resources of the United Nations to most effective use."[1] On the negative side, however, it must be recorded that actual

[1] *Fifth Report to Congress on Lend-Lease Operations, for the Period Ended June 11 1942* (Washington: G.P.O., 1942), p. 14.

performance still falls far short of the goal implied in that statement. Power over supply decisions affecting all the United Nations is still lodged in the hands of not just one but a multiplicity of United States national agencies and, to a less extent, British national agencies. There is consultation between these national agencies, with some degree of joint organization in the case of the British and the Americans in particular. But there are no United Nations supply decisions. There is no United Nations authority. Granted that those who happen to have disposable supplies can be expected to want a large voice in their allocation, the present system is not conducive to the most effective concentration of economic power in support of a United Nations strategy.

In allocating lend-lease supplies, United States national agencies are really performing a *United Nations* function. Just as major campaigns, for highest efficiency in the war effort, need to be planned and directed by a unified command rather than by separate national commands, so major allocations of supplies need to be planned and directed on a United Nations basis, rather than by separate national decisions of the nations that happen to have the disposable surpluses.

An ideally efficient supply system for a coalition war would include unstinted war production efforts by each country, the flow of production going into a common pool from which it would be allocated by a unified military and economic staff to the fronts where it could do the most good in the common cause. But coalitions do not usually follow any such procedure. That is one reason why they are notoriously weak in waging war. Napoleon once said that he would prefer to fight two nations rather than one, and, better still, three nations rather than two.

Today, in the coalition war of the United Nations, the various combined boards (combined Chiefs of Staff, Munitions Assignments Board, Combined Production and Resources Board, Combined Raw Materials Board, Combined Shipping Adjustment Boards, Combined Food Board) are assigned to perform some of these allocation functions at a higher-than-national level. But the combined boards include only the United States and Britain, not the Soviet Union, China, or other United Nations, except that Canada has been given a place on the Combined Production and Resources Board. In addition there are special Canadian-United States joint committees, as well as various other bilateral arrangements with and between others of the countries fighting on our side. The Anglo-American combined boards come the nearest to being United Nations supply planning agencies, but they fall far short of being that. They do not have staffs large enough or independent enough to do a supranational job. Some of the most important United Nations, let alone the smaller countries, are not represented on them. The combined boards are not adequately co-ordinated. There is neither a United

Nations political council to which they can be responsible nor an overall executive able to integrate their different but interrelated activities.

When the United Nations governments are in need of war supplies they can apply to Britain or the United States, the two chief sources of disposable surpluses. Applications to the United States Government must be justified in detail to our national agencies. The Office of Lend-Lease Administration serves in many cases as an "advocate" for these "clients" before the multitude of agencies where the real decisions are made—various units of the War Production Board, Army, Navy, Maritime Commission, Agriculture Department, Treasury, etc. This procedure is wrong in principle, and inevitably tends to produce inefficiency in allocation of supplies. It also puts our allies in an unnecessarily humiliating position and creates friction. Making "clients" out of allies, some of whom feel keenly that they have suffered more in the common cause than we have, though they are on the receiving end for supplies, and insisting that they justify their requests in detail before *our* administrative officials (rather than officials whom they as well as we have invested with power of decision) is not the best way to build a strong United Nations spirit and organization.

It would be much better if a United Nations war supply corporation or agency could be established which, for the balance of the war, would receive disposition over supplies in accordance with the production and export possibilities of the various United Nations and would allocate them from the common pool in accordance with global war strategy. Requests now addressed to the United States Government or to the British Government would henceforth be addressed to this agency. This presupposes, of course, establishment of a United Nations political council of some kind and a more effective system of unified staff work, both military and economic—all of which is highly desirable on other grounds, as well.

A recent survey in *Fortune* ("Lend-Lease to Date," October, 1942) has some remarks that are worth quoting. Nothing is more seriously needed, concludes this article, than a realistic appraisal of the lend-lease weapon:

> For lend-lease has been far too often interpreted as a form of charity, not as an instrument for survival. . . . Pooling of effort is inherent in the lend-lease idea, but competition for supplies has resulted from failure to practice lend-lease. Such competition prevents the war from becoming a single united action. . . . A common pool of men and materials—the aim of the lend-lease idea and the basis of any interallied co-operation—has not been created; global strategy, however frequently saluted, has not, to all appearances, become the force behind lend-lease practice. . . . Lend-lease has been torn between two entirely different conceptions of the place of the U.S. in a world of machines and a world of war. . . . Isolation no longer, of course, involves keeping out of war; but in effect it does involve keeping away from allies, and keeping arms and supplies for our own Army. It no longer denounces the armed appearance of the U.S. abroad; rather it insists on A.E.F.'s and claims that the U. S. Army must win the war, allies or no. . . . Lend-lease pooling, true

pooling, may require heavier U.S. sacrifice of arms than we have yet made (though most certainly it would in the end mean less sacrifice of men). . . . The crisis today is no different from the crisis last year and the year before. The issue is internationalism or isolationism.[2]

The Accounting Aspect of Lend-Lease

The second aspect of lend-lease is its significance as an accounting method which may give rise to interallied debts and may affect the ultimate distribution of the economic burdens of the war. We continue to keep books on what we supply to others and what they supply to us. This inevitably suggests to the American public that for any excess of "credits" we must be entitled to some future compensation, perhaps financial, perhaps nonfinancial. Meanwhile, we are fully in the war, and our officials speak of sharing the burdens of war on the principle of "equality of sacrifice." This is entirely different from the accounting principle, and the conflict between the two is laying the basis for serious misunderstanding.

After the first World War the insistence of our public and government on trying to collect inter-Allied claims arising out of the economic efforts to win the war became a principal factor in losing the peace. The war debt issue embittered the political atmosphere and helped to prevent constructive co-operation among nations in fields that would seem at first sight to be quite unrelated. This it did by handing a ready-made weapon to non-co-operationists—from the Hiram Johnsons to the Coughlinites—which they could drag out with devastating effect on every occasion. As late as 1935 the principal reason for the defeat of World Court ratification in the United States Senate was "war debts." It is hardly necessary to remind economists of the enormous and tragic difficulties introduced by Allied war debts (and reparations) after World War I into such problems as currency adjustment and stabilization, banking stability, and resumption of productive trade. Debts had been incurred for the unproductive purposes of war. They were owed in large part by those whom the war had handicapped in production and trade to those who were in the strongest positions. The creditors wanted money, but they did not want additional goods and raised tariffs to keep them out. Attempts to collect, ultimately futile, helped to wrench the mechanism of exchange out of gear and contributed to the maladjustments that made the world so vulnerable when depression came. The dead hand of past debts among allies thus helped to strangle the efforts of political and economic construction that might have made something worth while out of the common victory. Unless the formalities of lend-lease are brought into line fairly soon with our own assertions accepting full partnership in this war, we may accumulate a war

[2] Pp. 214, 217. The order of these excerpts has been shifted slightly.

debts problem and the same sort of thing may happen again—despite having "removed the dollar sign."

"If each country devotes roughly the same fraction of its national production to the war," says the *Fifth Report to Congress on Lend-Lease Operations,* transmitted by the President June 11, 1942, "then the financial burden of war is distributed equally among the United Nations in accordance with their ability to pay. And although the nations richest in resources are able to make the largest contributions, the claim of war against each is relatively the same. Such a distribution of the financial costs of war means that no nation will grow rich from the war effort of its allies. The money costs of the war will fall according to the rule of equality in sacrifice, as in effort."[3]

This principle by which to judge the equity of distribution of economic burdens among peoples all threatened by a common danger and fighting for a common victory looks in the right direction. Like many principles of equity it is not capable of mathematically exact application. It may be easier for wealthy countries to give up a large portion of current income than for very poor countries to give up a small portion. It would be folly to try to work out some equation in which could be inserted figures on production for civilian and war use, allowance for depreciation, allowance for bomb damage, perhaps allowance for living standards of armed forces, with the end result supposed to show how much each of the United Nations should pay to or receive from the common pool in order to even out economic sacrifices. And, of course, as soon as one begins to consider other kinds of sacrifices it is still more apparent that no statistical or financial calculation can apply. Lives cannot be weighed against commodities, and privations of different kinds cannot be compared.

In fact, a warning might be in order against committing the United States to any set principle or formula as a basis for assessing economic contributions to the war effort. All calculation in this field is bad. The main thing is for every people to put in as much as they can and will. Emulation may be good, but attempts to measure and compare exactly are likely to do harm both during and after the war. In this whole field of the sharing of war burdens two things have to be avoided like the plague if we are to reach workable and satisfactory arrangements: legal ideas and accounting ideas. Even on strictly nationalistic grounds, the United States should use caution in encouraging calculations. We might find ourselves in a vulnerable position if the Russians or the British, answering claims from our side, should work out comparative totals of consumption sacrificed on account of the war, economic losses by reason of casualties and bombings, and the like. There is already

[3] Pp. 22-23.

some disposition to do this in Britain, where articles critical of the whole idea of lend-lease accounting have appeared.

Incapable as it is of any precise quantitative application, the "rule of equality of sacrifice" does appeal to the sense of justice. This rule is quite different from the principle implied in lend-lease bookkeeping, however. According to the accounts kept under lend-lease, the United States has been the great "giver" thus far in the fight to stop Hitler and Japan. Britain and the Soviet Union are in "debt" to us, though the percentage of their production thrown against the enemy has been higher than ours, both before and after Pearl Harbor and probably down to date. China is in "debt" to us, though its economic and other sacrifices in resisting the common enemy have been much greater than ours. Rationing, long severe in Britain and other United Nations, has only begun in the United States. Measured by any rough standard of equality of sacrifice for the war effort, and whether we start from the beginning of the war or only from Pearl Harbor, the United States would still be a net debtor to the common "pool," but it is a great creditor under the lend-lease reckoning.

Lend-lease bookkeeping carefully measures goods and services that we turn over to our allies, and gravely offsets against this the goods and services that our allies turn over to our expeditionary forces ("lend-lease in reverse"). Responsible officials may not assume that the net balance represents an amount due us, either in money or in what the diplomats call a *quid pro quo*. They may contemplate ultimate arrangements that wash all this out. The point to be stressed, however, is what the public sees. The tacit assumption of itemized bookkeeping is that, in addition to getting its goods used against the enemy, the United States will be entitled to compensation at some future date for these same goods. That is the impression the American people are likely to get.[4]

[4] A national opinion poll in February, 1942, asked: "Do you think that Great Britain should or should not pay us for the war materials we have sent them under the lease-lend bill?" Answers were: should, 75 per cent; should but will not be able, 9 per cent; should not, 9 per cent; qualified or no opinion, 7 per cent. Corresponding figures for Russia were 76, 7, 9, and 8; for China, 63, 14, 15, and 8. In July the question was asked a bit differently: "Do you think that Great Britain should pay for all, or part, or none of the war materials we have sent them under the lease-lend bill?" Answers were, for Britain: all, 39 per cent; part, 43 per cent; none, 8 per cent; qualified or no opinion, 10 per cent. Corresponding figures for Russia were 32, 47, 11, and 10; for China, 20, 44, 24, and 12. That is, 82 per cent thought Britain should pay all or part, with 79 per cent holding similar views for Russia and 64 per cent for China. (National Opinion Research Center, University of Denver, Report No. 5 on *Postwar and Current Problems,* published August, 1942, and *Rocky Mountain Survey with National Comparisons,* published April, 1942.)

Incidentally, the same survey found evidence that great majorities favor trying to make the Axis powers pay some or all of what the war has cost the allies, i.e., reparations, and that attitudes on questions regarding the import of foreign commodities are decidedly protectionistic. In other words, we are all set to repeat the same old mistakes of contradictory economic policies, unless intelligent leadership can be given to public opinion in ways that will be effective.

While the American public looks at the credits and debits of lend-lease bookkeeping, allied recipients of supplies are more likely to put stress on American statements about pooling of resources and equality of sacrifice. Somewhere, false expectations are being encouraged. Here is material for first-class discord, unless steps are taken soon to clarify the situation. Are we pooling resources in a common effort for victory or are we selling supplies?

A few illustrations will show how ridiculous the whole principle of lend-lease bookkeeping has become, now that our stake in the war is clearly one of life and death and now that we are sending men as well as supplies into battle.

On the spot, say in New Guinea, General MacArthur may turn over an American tank to Australian troops. How can the records be kept straight? This is a nice problem in bookkeeping. But there is a still nicer problem of principle: Should the United States charge Australia for the tank, or should Australia charge the United States for the crew?

Undoubtedly adjustments are being made in practice which would help to avoid paradoxes like the following, but on the basis of general lend-lease principles this could occur: Two companies, one American, one British, stand before a hill in Tunis. The hill has to be stormed and taken. If the British do it, losing fifty men and some equipment, they incur a debt to the United States for replacements of equipment under lend-lease. If the Americans do it, losing fifty men and some equipment, there is no debt (unless we send supplies and replacements in British ships, charged under "lend-lease in reverse," in which case we would owe the British on the transaction). If the British troops run out of ammunition, should American officers get a receipt when supplying them, and vice versa?

"Lend-lease in reverse" or "reciprocal lend-lease" is being recorded as an offset to the accounting claims created by the flow of supplies from the United States to its allies. Aside from the fact that all records of the direction of supply movements are totally irrelevant to the principle of equality of sacrifice—since the thing that counts under that rule is diverting the national production to the United Nations war effort, regardless of who finally uses the materials against the enemy—this whole practice of reciprocal lend-lease bristles with political dangers. We send American boys to England. They help to defend English airfields and the English coast. They get some supplies and accommodations locally, which are charged to the United States under reciprocal lend-lease. There are sure to be some items among those furnished locally which can be made to look like "paying rent for the trenches." Isolationist investigating committees will be eager to publicize such in-

stances. The main function of detailed records on lend-lease and lend-lease-in-reverse may well be to serve as a gold mine for demagogues. I can see no other function for them, assuming that we really believe in the "equality of sacrifice" principle.

It would be a wise action if the President, acting under the broad powers delegated to him in the Lend-Lease Act, were to wipe the slate clean of obligations for repayment on account of lend-lease deliveries, including those made before Pearl Harbor. This he could do by proclaiming that effective use of lend-lease supplies in ways which contribute to defeat of the Axis will be deemed a sufficient "benefit" to the United States. As for items remaining unused, or not used up, at the end of the war, it would be well to consider a provision whereby leftover civilian supplies and equipment would be placed at the disposition of a United Nations relief commission and a United Nations development authority, while leftover military items would go to a United Nations police force. The exact form and the justification which might be used in giving effect to the policy suggested, the preparation and timing of announcements, the handling of relations with Congress, and whether there should be some minor exceptions to the general principle of wiping the slate clean are all delicate political problems which will not be discussed here.

At the same time, of course, reciprocal lend-lease claims against the United States would also be wiped out. Thereafter, each of the United Nations would be expected to produce war supplies to the limit of its ability and to allocate them to the commanders of the various fronts in accordance with global United Nations strategy. The commanders would, of course, distribute the supplies for effective use without regard to the insignia on the uniforms of the men who finally fire the shells. The books would show, "sent to General Eisenhower, United Nations Commander in Northwest Africa," such-and-such items, whether the British or the American troops under his command used them. Similarly, the national citizenship of the war workers who eat foodstuffs sent from here should play a minor role in allocation decisions and certainly should not give rise, or even appear to give rise, to obligations for financial or other compensation.

Some will say that this is not the time to do away with reciprocal war debts. We ought to hold our claims against our allies for the sake of bargaining power in the postwar world. Few notions are more fatuous than this. In the first place, the idea of exacting an additional *quid pro quo* (beyond effective use of the lend-lease materials against the Axis) is unjust if we accept the equality of sacrifice principle. In the second place, experience is all against the view that holding a debt over an-

other government gives bargaining power, especially when the debtor government feels that it does not justly owe repayment.[5] The United States would get much more advantage from a broad and prompt removal of the whole issue of compensation for war supplies, especially if negotiations to this end were coupled with other negotiations out of which might come other constructive United Nations agreements to be announced simultaneously. In particular, as already implied, there might be created at about the same time that lend-lease obligations are wiped out, a United Nations council, a United Nations relief and reconstruction agency, a United Nations development authority, and a nucleus United Nations police force.

It has been suggested that among the "benefits" which the United States might ask for in return for lend-lease supplies are commitments on trade policy in the postwar world. It is very questionable whether it is wise to mix discussions of trade policy with lend-lease compensation on any basis which seems to imply that the United States is attempting to exact concessions in return for war supplies. In the recent exchange of notes with Canada the same basic pledges on postwar economic policy which have been embodied in Article VII of all the master lend-lease agreements were agreed to on a basis of mutual benefit. Lend-lease was not involved, as, indeed, Canada has not been receiving lend-lease aid. Is this not a preferable procedure?

Lend-Lease in Relation to Postwar Problems

We have so far considered lend-lease, first, in relation to wartime supply allocation among the United Nations and, second, in relation to the problem of possible interallied debt claims and the sharing of the economic burdens of the war. In the time left only a few comments are possible on a third aspect that is a vast field in itself: possible postwar applications of lend-lease in connection with international relief, reconstruction, investment in the development of the less developed areas, and international trade generally.

One hears allusions to "continuing lend-lease after the war," "applying the lend-lease principle" to this or that, or "carrying over lend-lease techniques." What, specifically, might these phrases mean? Different people using them may intend to emphasize very different things. For example, I have jotted down the following list of possible meanings: (1) Direct governmental trading or investment. (2) Sending goods

[5] The common assumption that a creditor holds the whip hand in relation to a debtor is not true in international affairs, whatever may be the case in private affairs. It is not true of ordinary loans, and still less true of war debts. "Loans create neither gratitude nor dependence, and they can be repudiated with the greatest of ease. Not favors already received, but favors still to be received create for the donor a position of influence and power." (Nicholas J. Spykman, *America's Strategy in World Politics*, p. 332.)

and services abroad as gifts, or in return for nonfinancial benefits, or to be used and returned in kind, or on a barter basis, or on a basis of cash reimbursement, or just sending them with the question of repayment or "benefit" to the United States to be settled later. (3) Organizing such transactions in accordance with unilateral decisions by the United States, or in accordance with bilateral arrangements (with or without the assistance of binational committees like the Anglo-American combined boards) or in accordance with multilateral institutions such as a United Nations relief and rehabilitation agency and a United Nations development authority.

Most United States exports, aside from "exports" to our own armed forces abroad, are today moving through lend-lease channels.[6] Inward goods movements, too, are handled in no small part by direct governmental purchase or through reciprocal lend-lease. At the end of the war the government will be carrying on most of our international trade. Does this mean that the postwar foreign trade of the United States will be mainly governmental? Probably not. There is no reason to think that the days of private importing and exporting are over. It does seem likely, however, that wartime experience with lend-lease and other forms of direct governmental handling of goods and services will leave its mark on international commerce. Direct governmental trading, in addition to being the regular method of international commerce for some countries, such as the Soviet Union, will probably form a portion of the international trading system of almost all countries. At the very least, governmental trading will be resorted to more readily in emergencies, such as postwar relief and rehabilitation, and for special purposes, such as commodity stabilization or the provision of real capital for development of underdeveloped countries and for repayment of this capital in specified goods and services. Quotas and tariffs can be used only negatively, to restrict trade. Even their removal does not positively increase trade, just as lowering interest rates does not in all circumstances induce businessmen to expand. Direct trading by governments, while it could be used restrictively, could also be used in expansionary ways—to create *additional* interchange.

Now consider the issue of repayment in connection with postwar supplies. The best long-run basis for building up world prosperity and stability is, of course, in operations of types that increase world productivity and world trade and thus enable repayment to be made. Sound

[6] The *Fifth Report to Congress on Lend-Lease Operations* mentioned that from March, 1941, through May, 1942, the value of lend-lease exports amounted to 29 per cent of the value of all exports, not counting shipments to United States forces abroad, and that in May, 1942, lend-lease exports were approximately 54 per cent of total exports. Later figures on this point have apparently not been made public, but lend-lease shipments have continued to increase.

investment for development of latent productive power, assistance in education and technical knowledge, and mutually beneficial exchanges of goods and services are the elements of an intelligent and workable policy for leveling upwards the standards of living of the world after the war. Certainly no one in his senses, least of all the peoples of the low-income countries themselves, should want a permanent system of charitable handouts from the more productive, and hence wealthier, areas to the less productive, and hence poorer, areas. The rational objective is to raise living standards of the poorer areas by raising their productivity, and this can be done by sound developmental methods which also enable the wealthier areas to increase their already high productivity, and hence their own living standards, at the same time. This is the kind of postwar policy contemplated in Article VII of the Master Lend-Lease Agreements: "agreed action . . . directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods which are the material foundations of the liberty and welfare of all peoples. . . ."

There may be willingness, even pressure, in the United States to continue sending certain kinds of "surplus commodities" abroad after the war on some basis analagous to lend-lease.[7] If we are willing to *give* such products, that is one thing, but if we want to *sell* them on credit, expecting repayment later, that raises the transfer problem. The whole transaction will be unsound unless the United States is willing to take something in exchange; that is, unless it increases its imports. There is no magic device, whether called "lend-lease" or something else, by which trade can be made anything but a two-way street. Agreement to take some specified commodity in repayment—tin or tungsten or coffee or cocoa—does not meet the issue, unless it is a genuine addition to what would have been imported otherwise. If we take in barter, say on "reciprocal lend-lease," something that we otherwise would have paid for with dollars, that may settle a particular lend-lease transaction but it increases the dollar-shortage that will in all probability confront our regular customers and everyone trying to make payments to the United States. Of all the contributions that the United States could make to world economic revival and soundness after the war, perhaps the most essential is to achieve a very high, sustained volume of imports. That could be done by a combination of internal economic expansion and re-

[7] Ten days after the Armistice of 1918 Secretary of the Treasury McAdoo cabled the American financial representative in London that the Treasury had no authority to grant loans for reconstruction or other postwar purposes, but it intended to seek permission to grant limited credits to Allied governments that would not otherwise be able to continue their purchases of American commodities: "Such sales may aid us in finding markets for our commodities and there may be considerable pressure here to induce Government to extend such aid." (Ray Stannard Baker, *Woodrow Wilson and World Settlement,* Vol. III Document 44, pp. 320-321.)

duction of tariffs. There would be great danger in any attempt to convert lend-lease into a postwar device for forcing exports while adopting a negative attitude towards imports.

There are certain kinds of postwar needs that the United States ought to help meet without trying to get a direct return. Can we not agree that relief should require no repayment at all? And should we not include under this head not merely the emergency feeding of peoples in regions devastated or disorganized by the war but also their rehabilitation for productive, self-supporting work, which means assisting them with seeds, livestock, and materials for restarting industrial production? The nations that have suffered least in the war should help in the rehabilitation of those that have suffered most, and should do it without asking repayment. This is good humanitarianism. It is also just, for rehabilitation is part of the cost of war, and the principle of equality of sacrifice applies. It is also hard-boiled self-interest, if the self-interest is intelligent and farsighted as well as hard-boiled.

We shall have invested much in victory. It would be foolish to practice false "economy" on the relatively small additional amounts necessary to hasten the rebuilding of production and trade and the establishment of economic and political stability, without which the victory will be hollow and temporary. It would be foolish, also, to rescue nations from enemy occupations, feed the starving for a while, help them to get restarted, and then leave them saddled with a debt beyond their weakened economic strength. Not only will the internal capacity of rehabilitated nations to save for debt payment be weak for some time, but they will have difficulty attaining the export level which would give them enough surplus of exports over imports to provide extra foreign exchange for debt payments. Under these circumstances, relief and rehabilitation *loans,* as distinct from relief and rehabilitation *gifts,* would be likely to impose such strains on many of the convalescent economies that, when repayment came due, their financial and economic systems would be thrown back into the state of collapse from which they had been rescued. The loans would be defaulted. It is much better to make a gift to restore production and trade, and harvest the benefits in the form of increased political and economic stability, than to make a loan which turns out to be a bad debt anyway and in the process perhaps destroys the work it was supposed to do.

Of course, this argument for outright subsidies instead of loans applies only to a special and limited class of cases. The criteria for selecting such cases and the actual administration of the grants in aid might best be left to a multilateral (United Nations) relief and rehabilitation agency, which would receive into its pool of assets all the contributions—in cash or in kind—that the United States and Britain

and Brazil and every other country might be willing to make and would use them in accordance with decisions of a directing board.

The same principle might be applied to the allocation and supervision of rehabilitation loans, where loans rather than outright grants seemed to be the sound procedure. Similarly, for supplying capital and technical assistance to encourage the long-range economic development of China, South America, the Balkans, etc., multilateral institutions and procedures are preferable to the unilateral and bilateral type of operation thus far developed under lend-lease. Let the United States furnish whatever cash or commodities or gold it is willing to furnish after the war, whether as gifts or loans or guarantees. But let these assets be put in as endowment or as working capital into a pool of assets, held by a United Nations relief and rehabilitation agency for these purposes, and by a United Nations development authority for longer-range development purposes. Other nations, too, should be expected to contribute to the pool of assets, in accordance with their circumstances. It might be a ticklish problem to work out the distribution of voting shares, but such problems have been solved before. In the case of a development authority, the less-industrialized, less-developed countries, like China, should certainly be represented together with the industrially advanced, lending countries like the United States and Britain. Thus, instead of bargaining directly with Belgium or China on the terms of relief to be given or capital to be loaned, the United States would help to support and manage the appropriate United Nations authority, which in turn would deal with Belgium or China.

The advantages of such a multilateral (United Nations) system over the methods of lend-lease, so far as they have evolved to date, are many. It would relieve the United States, to some extent, of the delicate and thankless task of deciding between contending factions in the national politics of disorganized countries—a task which is inevitably tied up with the distribution of relief or loans and which ought, in any case, to be shared. It would make available assets go further, by avoiding the overlapping and inefficiency of unco-ordinated national attempts to give aid and by establishing continuity of administration. It is a good guess that rehabilitation loans made under the auspices of such a system would be better planned and would be more likely to be repaid to the central agency, thus becoming usable again as revolving funds, than would separate national loans. The pool would make more assets available in the first place, for it could accumulate funds from scattered sources that would not be large enough to count separately. Private as well as governmental funds could be brought in. In the case of the development authority, bonds might be issued which, with governmental guarantees, could tap life insurance and other institutional savings. The

United States could put some of its excessive stock of Kentucky gold to good use in the capitalization of these United Nations institutions. While economists might recognize this as a bit of hocus-pocus, the American people would probably react politically to such a proposition with more favor than to a proposal for turning over an equivalent amount in some other way.

But the biggest advantage of all is the most general one, and this brings us back to the problem of wartime supply allocation and the failure of lend-lease to evolve into a United Nations system though it performs a United Nations function. The revival, stabilization, and development of the world economy is likewise a United Nations function, not a United States function, or the function of any national group. It is not a job the United States can do on its own, though our co-operation and leadership are indispensable, and it is not a job we ought to want to tackle on our own. It is of vital interest to the United States that strong United Nations institutions should exist to perform this task and that they should have the necessary power, prestige, and funds to do it. Our interest is to help establish a self-running world (in which we take an appropriate part), not to try to run the world ourselves, or to withdraw and have it run into chaos again.

It is generally recognized as a major blunder that the United States insisted on scrapping the interallied shipping, food, and raw material organizations of the first World War immediately after the Armistice.[8]

[8] On October 24, 1918, F. W. Taussig, who was then Chairman of the Tariff Commission, wrote President Wilson urging a system of "international allotment" of important commodities in the transition period to follow the war. He wanted this done by an international board on which "allies, neutrals, and the present belligerents" should be represented. (Unpublished memorandum made available by members of Professor Taussig's family.) Herbert Hoover, Food Administrator at the time, had already written to the President "arguing strongly against the proposal which had come from certain quarters for international control of world distribution after the war." (Baker, *op. cit.*, Vol. 8, p. 510.) On October 30, Mr. J. P. Cotton, a London representative of the U. S. Food Administration, cabled a summary of discussions held in London by members of the allied transport and food councils, together with their unanimous recommendation in favor of a general allied plan for control of food, credit, and raw materials during the reconstruction period. Three days before the Armistice, Mr. Hoover sent a reply, with the approval of the President and Secretary of State Lansing, in which it was said that: "this Government will not agree to any programme that even looks like inter-Allied control of our economic resources after peace. After peace over one-half of the whole export of food supplies of the world will come from the United States and for the buyers of these supplies to sit in majority in dictation to us as to prices and distribution is wholly inconceivable. The same applies to raw materials. Our only hope of securing justice in distribution, proper appreciation abroad of the effort we make to assist foreign nations, and proper return for the service that we will perform will revolve around complete independence of commitment to joint action on our part."

The same dispatch rejected the idea of an inter-Allied relief office and favored instead a commission patterned after the Belgian Relief Organization. Such a commission would "above all" prevent "the extension of the functions and life of Inter-Allied Food and Maritime Councils either now or after peace."

The whole exchange is worth reading in *Foreign Relations of the United States, 1918*, Sup. 1, Vol. I, pp. 616 ff.

Exactly the opposite policy is the correct one today: to create and perpetuate United Nations institutions broad and effective enough to win the war more quickly and to meet successfully the economic and other problems of the postwar epoch. Lend-lease could be converted into a powerful instrument in support of such a policy. But lend-lease would have to cease being merely bilateral.

One may distinguish three levels of international co-operation in the economic field: (1) parallel action by national governments; (2) co-ordinated action by national governments in agreement with each other (e.g., co-ordination of monetary policies); and (3) unified action in which a representative supranational agency is empowered to act on behalf of all (e.g., a United Nations development authority with its own funds to disburse). The economic war effort of the United Nations is still at the first and partly at the second level. Unless we can get to the third level in at least some fields before the war is won, there would seem to be small hope for postwar co-operation at that level. The degree of co-operation attainable under the pressure of war is likely to indicate the outside limit of co-operation attainable after the war. Yet unified supranational action will be indispensable in some fields if the complicated problems of postwar economics are to be met successfully.

Many of us have hoped that United Nations solidarity forged in the fire of war, under the menace of a common enemy, might take durable institutional forms and carry over into the postwar epoch. Yet the war is getting far along and much remains undone. In some respects we have not come as far in the organization of allied co-operation as in 1918. Meanwhile, at least so far as an outsider can see, little is being done to improve the situation. I believe it is correct to say that there is to date no truly United Nations economic agency of wartime supply or of postwar planning—not one. There is nowhere in the world one single official whose boss is the United Nations rather than some particular nation. There has never been a truly United Nations decision, unless, perhaps, one in regard to a form of words in a declaration. This may well be a matter for regret and indeed for alarm on the part of those who want victory to be as quick as possible and who want the terrible sacrifices of this war to lead to a more durable peace and a better economic world.

TWO ASPECTS OF LEND-LEASE ECONOMICS

By Eugene V. Rostow
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I should like to comment on two or three of the more narrowly economic points of Mr. Staley's paper. I have little or nothing to add to his treatment of the political and military issues presented by the problem of organizing a combined United Nations staff to allocate British, American, and Canadian supplies to the ten or twelve fronts on which the war is being conducted. His discussion of our combined boards brings out the difficulties inherent in the task, and the merits and possible demerits of the steps which have so far been taken to meet them. Nor shall I comment on his judgment as to the political desirability of a lend-lease settlement at this juncture of the war. But there are certain economic implications of the lend-lease program which might bear further discussion.

Lend-lease is a phrase with at least seven types of ambiguity. One of its most important connotations is one which is most often ignored. Lend-lease is a form of governmental procurement. One of the major purposes of the Lend-Lease Act was to require the purchasing of American supplies for the nations fighting the war to be done by our own military, naval, and maritime establishments, and, for agricultural and industrial materials, by civilian branches of the United States Government. In contrast to the methods used in 1917, we were deliberately limiting the number of large purchasers in our domestic markets. In part the objective was educational. We sought to develop the supply services of our armed forces beyond the point permitted by their own appropriations, for obvious and highly desirable reasons of military policy. We sought to bring the entire war potential of the country under unified control, so that our rearmament program would be a co-ordinated whole, not a series of separate and rather loosely connected purchasing programs, with different objectives and different claims against production and inventories. This phase of the lend-lease program has of course proved to be one of immense importance. Together with the 4 or 5 billion dollars of cash orders placed here by the British, French, and Dutch, our lend-lease expenditures have been a major force in expanding our industrial potential, and in training the armed services, the management of industry, and the labor force, in the skills required to supply a modern war.

But a major purpose of the policy was economic. In contemplation of the shortages which would necessarily develop, the concentration of war procurement has played its part in preparing the organization of

an economy in which the allocation of resources could be effectively controlled by administrative decision rather than by price.

This development, obviously, has many implications for our habitual patterns of economic organization. Markets in which there are few buyers have their own strange price habits, to which Mrs. Robinson, Professor Chamberlin, and others have frequently called attention. Our lend-lease policy of governmental procurement has probably saved the government many millions of dollars, by limiting competition among buyers in markets where supplies are scarce, despite other factors, legal and economic, which have operated in the direction of higher prices.

But some of the changes wrought by lend-lease in the organization of international trade are probably even more radical than its impact on our domestic economy. After all, in the domestic field, the government's chief control activity to this point has been its activity as a purchaser, and lend-lease has been one aspect only of that more general effort. But in the international field lend-lease has brought about changes in organization which may have far deeper economic and political consequences. Private institutions for the facilitation of export, item by item, have given way to direct intergovernmental negotiation for huge quantities of goods and services. Russian, British, or Chinese demands upon our economy are made, not through a multitude of individual purchase transactions in our markets, but by the presentation of quarterly or annual requirements to authorities who have the power of direct allocation. This is obviously a matter of efficiency in the conduct of an economic system which uses such weapons of control as priorities, limitation orders, rationing decrees, and the like. It is, however, a method of conducting international trade which has all the political disadvantages of concentrated economic power.

The concentration of economic authority is a manifest necessity for the conduct of war, when the main political objectives of the community are reasonably clear—although even in war there are political repercussions when supplies are allotted to one theater rather than another. But such complete political responsibility for the flow of our international trade will present great problems if these wartime methods of governmental procurement persist long into the period of peace. I am not raising the straw man of uncontrolled trade. Obviously trade in many senses will be controlled after the war, with all kinds of political, financial, and economic goals in mind. But there are controls and controls. When we re-examinine our wartime methods to see which of them should be carried over and used in peacetime, I suggest careful study of the desirability of using governmental procurement, with special reference to the problem of concentration and dispersal of economic responsibility. Governmental procurement is a probability for some of

the great governmental tasks of the postwar period. It should not be used, despite its simplicity, in ways which accentuate its political and economic dangers.

And even on the score of simplicity one should exercise caution. Everyone with experience in our wartime economic arrangements will concede, I think, that money is a far more convenient medium of exchange than a four-page lend-lease requisition prepared in twenty-seven duplicates, and calling for twenty-seven initials!

Lend-lease is a method of financing as well as a method of procurement.

There are two possible theories about lend-lease financing, both of which have a bearing on the course of policy.

The first is that lend-lease is a financial device to permit the offset for war purposes of wartime disturbances in a country's balance of international payments, especially with reference to the United States. The object of lend-lease policy, so considered, is to assure our friends that a shortage of goods which can be procured for dollars will not be allowed to interfere with the most vigorous possible prosecution of the war. As the President has said, "the lend-lease principle, as it develops, is removing the possibility that considerations of finance can interfere with the full use of material resources."[1]

The other theory of lend-lease, though closely related, has a somewhat different emphasis. It concerns not so much the decision as to how much of the amounts provided a country from the United States shall be financed under lend-lease, as it does the principles which should govern in the final settlement of the records of lend-lease and reciprocal lend-lease assistance. It rests on the economist's premise that there is no way for one community to transfer to another the present real costs of the share of its national output devoted to the common war. It assumes further that each belligerent should in equity meet the ultimate costs of the share of its resources and production made available in the common war. There is one war, and the nationality of the soldier at the gun or the worker at the lathe is immaterial. Each country will bear a fair share of the burden if each devotes as large a share of its national output to the war as it can. In the *Fifth Lend-Lease Report,* in a passage to which Mr. Staley has drawn attention, the President said:

> The real costs of the war cannot be measured, nor compared, nor paid for in money. They must be met and are being met in blood and toil. But the financial costs of the war can and should be met in a way which will serve the needs of lasting peace and mutual economic well-being.
>
> All the United Nations are seeking maximum conversion to war production, in the light of their special resources. If each country devotes roughly the same fraction of its national production to the war, then the financial burden of war is distributed equally among the United Nations in accordance with their ability to pay. And although the

[1] *Fifth Report to the Congress on Lend-Lease Operations,* June 11, 1942, p. 13.

nations richest in resources are able to make larger contributions, the claim of war against each is relatively the same. Such a distribution of the financial costs of war means that no nation will grow rich from the war effort of its allies. The money costs of the war will fall according to the rule of equality in sacrifice, as in effort.

I do not read this passage as requiring complicated analysis of comparative national income statistics. Rather it seems to me to state a broad principle to control in any future discussions with reference to the lend-lease records, in the light of all the relevant facts. One such fact of course, as the President has noted, is that in relation to their available resources Britain and Russia have up to now produced more weapons than we have.[2] I do not think it essential to go far beyond this general conclusion in judging the utility of the principle announced in the *Fifth Report.*

In actual practice, very naturally, our policy has been a blending of these two themes. Reciprocal lend-lease assistance to our forces abroad is not undertaken for purely financial reasons. What is so freely provided to our forces in Britain, China, Australia, French and Belgian Africa, New Zealand, and India is not given because we lack the foreign exchange with which to buy it. In the whole field of military supply the rule is increasingly, as the Reciprocal Aid Agreements of September 3 1942, put it, that "the general principles to be applied, to the point a which the common war effort is most effective, is that as large a portion a possible of the articles and services which each government may author ize to be provided to the other shall be in the form of reciprocal aid s that the need of each government for the currency of the other may be reduced to a minimum." At the same time, and for perfectly simpl and sound financial reasons, we do continue to purchase some raw materials from Russia, Australia, and certain other countries receiv ing lend-lease aid. The trend, of course, is in the other direction, and should assume, in watching the slow development of the movemen towards governmental and lend-lease procurement, that this trend wil be accentuated as the financial disturbances of the early wartime perio are alleviated.

Here again our wartime arrangements may not apply to the prob lems of the postwar world. As Mr. Staley warns, some commentator are talking too glibly about the indefinite continuance of lend-leas aid after the war. The editor of the *Economist* rightly criticized thes speculations as proposals for "painless prosperity," "too ingenious t be ingenuous." Lend-lease, it cannot be too often repeated, is a measur for waging war, and for the removal of financial impediments to th waging of war. It does not offer a panacea for the problems of consump

[2] *Sixth Report on Lend-Lease Operations,* September 11, 1942, p. 5. See also testimon of Mr. Dean Acheson, *Hearings* before Committee on Foreign Affairs of House of Repre sentatives, 78th Congress, First Session, on H.R. 1501, to extend for one year the provisio of the Act of March 11, 1941.

tion and capital accumulation, of international investment and increasing productivity, which we shall face after the immediate period of postwar adjustment. Lend-lease is not necessarily an answer to postwar problems, either as a method of economic organization or as a financial device. As the *Economist* put it, in the editorial to which I have just referred:

> The time has surely come for a plea of simplicity and directness in projects for postwar economy. . . . In the twentieth century, as in the nineteenth, world economic progress and the standard of living of every nation depend in actual fact upon the fullest possible production, the fullest possible trade, and the fullest possible investment. It is by investment that output and commerce are sustained; they are not enemies but allies. The vast industrial capacity of the United States today was founded by British investment; and it was from that capacity that British investors in American development were paid. The same will be true tomorrow of other countries as it was yesterday of the United States. There may indeed be a case for saying that war debts, which may not increase the peacetime productivity of the debtor country at all, create no proceeds from which they can be discharged. But there is none, in the light of history and of common sense, for saying that normal international investment, upon which the postwar future of a large part of the world must depend, comes in the same category. The proper object of postwar economic policy is to raise standards throughout the world; and only through the restoration of long-term international lending can this be done. It is the view of the baroque economists that this is impossible. Creditors, it is argued, cannot be expected to adjust their prices and costs and tariffs to receive payments; debtors, it is affirmed, cannot be expected to adjust their economies to make possible the payment of their debts. If this is true, no ingenious devices can save the future; the result is anarchy or autarchy—or both. It was not impossible in the past for free-trade Britain to receive payments from its debtors. Nor is there any reason why debtor countries should not be ready to engage in precisely the same degree of abstinence to meet their foreign obligations as would be required to make possible the same amount of investment from domestic sources.
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> The truth is that too many people are searching for the soft option, for a world in which lenders will lend and borrowers will not repay, in which sellers can sell and need not buy in return.
>
> What is needed, on both sides of the Atlantic, is more talk about enterprise and efficiency and expansion, and less about guarantees, much more emphasis upon adaptability to changing technical and market conditions and much less emphasis upon protection and safeguards. The standard of living of any country is measured by the productivity of its people; and the conditions laid down by Mr. Cordell Hull—free trade, stable exchanges and overseas investment—are essential to raising standards everywhere. It is the necessary duty of every country, in whatever kind of postwar world may emerge, to pursue the policies which are most likely to bring about, at one and the same time, domestic and international equilibrium. The pernicious doctrine is abroad that, while political sovereignty must be abated to secure the rule of law, economic sovereignty can be raised to the nth power to protect national standards of living. This doctrine is not only full of peril for the world; it is also quite impossible to achievement.

Lend-lease procurement and lend-lease financing have been and will remain prodigious instruments of waging war. The lend-lease settlements, it may be hoped, will interpose no obstacles to the achievement of our major objectives in the field of international economic reconstruction—the establishment of stable and freely exchangeable currencies, the restoration of international investment, and the achievement of a maximum volume of world trade. But lend-lease should not lightly be regarded as a peacetime panacea. It is a war weapon of incalculable value, not a substitute for more direct measures to meet the economic problems of the postwar world.

POSTWAR CURRENCY STABILIZATION

By HARRY D. WHITE
Treasury Department

International co-operation for the stabilization of currencies is gen-erally admitted to be an essential part of any effective program fo postwar reconstruction. Without it a large part of the world canno escape severe monetary disorders; and even countries amply pro-vided with gold and foreign exchange assets will feel the unfortunat effects of currency disturbances. The impediments to world recon-struction and recovery arising from unstable currencies can be averte only through careful preparation and international co-operation.

The task of achieving postwar currency stabilization resolves itsel into a fourfold program. Each part of this program could stand alone each would make some contribution toward solution of the problem together they provide the best assurance that postwar currency stabili-zation can be achieved and maintained.

The first part of the fourfold task is to provide for orderly adjustmen of currency values that may be necessary because of basic changes in th economic and monetary position of some countries brought about b the war.

A few countries may have to determine the value of their currencie practically *de noveau.* Some others will find the international positio of their currencies substantially altered. Unless exchange rates ar adjusted to reflect such fundamental monetary and economic change as will have taken place as a result of the war, we are likely to repea the unfortunate monetary experiences of the twenties and the thirtie We cannot hope for sound recovery in international economic life s long as the germs of monetary instability infect a large part of th world. There is no advantage in achieving a pseudo stability by cling-ing to restrictive measures that seriously hamper international ec-nomic life. Only an intelligent adjustment of exchange rates to the ne international economic position in the postwar period can provide firm foundation on which to build a high level of world trade an prosperity.

However, to avoid competitive depreciation of currencies, and pr mote an adjustment of rates which would facilitate rather than obstru currency stability, the fixing of currency values must not be left to th sole judgment of each country acting alone and in its own presume interest. There must be international consultation looking toward agre ment on currency ratios—particularly of the more important curre cies. Admittedly agreement on appropriate currency ratios is a difficu

task, beset with theoretical as well as practical pitfalls. Yet it must be done. If left to unilateral action it is likely to be ill-done, and is likely to foster international bickering and retaliation; if undertaken by a group of governments acting together there is a good chance that it will be well done, and an excellent chance that it will stimulate more extensive international collaboration.

A second part of the program to promote currency stability is to free the balance of payments of a number of countries from pressures they cannot or will not bear.

Once hostilities cease there will be an enormous demand for imports by countries whose foreign exchange resources will be entirely inadequate to carry the burden of payment. Europe and Asia will need billions of dollars of food, clothing, and medical supplies if famine, disease, and social chaos are to be avoided. The countries that will be in greatest need of such help may be those without foreign exchange resources to pay for it. Such goods should be supplied in the form of relief through the Army, the Lend-Lease Administration, or an international relief organization. Whatever the agency, the relief given should be large and must not entail obligations that will constitute unbearable burdens on the recipient countries.

Quite apart from relief, there will be a tremendous need for capital for reconstruction. The actual physical destruction caused by war in Europe, Asia, and Africa will be enormous. Factories, public utilities, transportation systems, homes, and farms will have to be rebuilt or repaired. The industries of Europe now geared to war production will have to be re-equipped to produce the goods of peace. Millions of farms will have to be supplied with seed, fertilizer, livestock, and farm machinery. This process of reconstruction will necessitate large imports of goods and services and will require billions of dollars of foreign exchange.

It is futile to look to the private investor to supply more than a small part of the capital needed for the more urgent postwar reconstruction needs. The risks of loss seem to him too great and the prospects of profit too small to justify much hope of financing the bulk of reconstruction on a private basis. Only an international agency organized by the governments of the world can assure the supply of capital needed for reconstruction at rates of interest and amortization which will not unduly burden the balance of payments of the borrowing country.

Once, however, the prospects of currency stability are improved and restrictions on dividend and interest withdrawals removed, private capital will doubtless flow in increasing volume to areas in need of capital. In the beginning these foreign investments will more likely

take the form of branch plants, the outright purchase of mines, factories, and plantations. As confidence is gradually built up, foreign investments will assume more and more the form of loans to governments, to municipalities, and finally to public utilities and other corporate enterprises. To induce the large volume of savings that we may expect after the war to seek profitable employment in countries in great need of capital, it is necessary to protect the balance of international accounts from the dangerous pressure that would be created were loans not forthcoming in large magnitudes at low rates of interest and long periods of amortization.

In addition to providing relief and reconstruction capital it would, of course, help if countries with large foreign exchange reserves were to move quickly toward reduction of the barriers to imports.

It would also be very helpful if some plan could be devised to free some of the large aggregate of postwar blocked balances without placing a heavy burden during the next five or ten years on the balance of payments of the particular countries in whose currencies they are held. The existence of these large blocked balances constitutes one of the threats to the stability of certain postwar currencies and may in some cases prove to be a decisive reason for maintaining restrictions on the free movement of capital.

A third important part of any program designed to stabilize currencies is the provision of facilities for maintaining stable exchange rates during the months or years while countries are adjusting themselves to the continual changes in their international economic position

Changes in international economic relationships are, of course, constantly going on in normal as well as critical periods. Fluctuation in crop yields, technological developments, changes in monetary and commercial policy in any country have their impact on the international accounts of other countries. Sometimes the impact is slight and of short duration; sometimes it is powerful and prolonged. At all times the changes serve to create disequilibrium in the balances of payments of some countries though they may at the same time correct disequilibrium in others.

If all, or most countries, had adequate gold and foreign exchange resources to withstand an adverse balance of payments for a number of years without giving rise to fears of exhaustion of those resources the prospects of maintaining stable currencies would be infinitely better. A period of several years is ample time, in most cases, to permit either a positive adjustment to the new situation without the adoption of drastic measures or the equilibrating effect of passive or accidental changes in international economic relations. But relatively few coun-

tries have foreign exchange resources and monetary reserves adequate to take care of sustained adverse balances for so long a period. It is, therefore, desirable that some international organization be established which would provide the means of maintaining stability of a threatened currency during such periods of adjustment.

An agency that could perform such function without too great risk of loss by the chief participants is not easy to devise. It would have to contend with many difficult problems, not least of which is the fact that some of the basic causes of world international disequilibrium may not be removed for some time. Unfortunately, as yet, outside of a relatively small number of technicians and postwar planning groups there appears to be little realization of the difficulty of the task of restoring and maintaining international equilibrium and the large resources that have to be provided for the purpose. Nonetheless, the need for protecting the currencies of the world from unbearable postwar pressures will become clearer as time goes on, and we may expect an increasing interest in support of realistic proposals designed to provide that protection.

The fourth task is to devise a mechanism whereby such changes in exchange rates as may from time to time become necessary can be made in an orderly manner by multilateral agreement.

There are occasions when it may be economically wise and beneficial to world trade for a country to alter the value of its currency in terms of other currencies. When a country's balance of payments is in severe disequilibrium for causes that do not appear to be temporary, then altering the value of that currency in terms of other currencies is one of the numerous ways in which the disequilibrium might be corrected. Which of the several methods available to a country is best suited to accomplish the desired objective depends on the cause of the disequilibrium, the circumstances, the country, the time, and the situation in certain other countries.

The circumstances under which it may be wise to resort to an alteration of exchange rates in order to correct maladjustments of the balance of payments have long been a matter of controversy among monetary theorists. Though there appears to be no unanimity as to the wisdom of adhering to an inflexible policy of fixed exchange rates as against a policy of allowing some flexibility under certain circumstances, there does seem to be general agreement that an alteration in the value of a currency in terms of gold or important currencies is a very serious step and one not to be undertaken lightly. Because all countries are to a lesser or greater degree affected by the action of any one country with respect to the value of its currency, it is only reason-

able to require that such action should not be undertaken without a careful and impartial weighing of the consequences of the action on other countries.

If it be recognized that there are occasions when it is desirable for a country to alter the value of its currency in terms of other currencies, we cannot escape the conclusion that it is far better to have such alteration take place as a result of consultation and agreement among all affected countries. One of the serious dangers accompanying alteration of exchange rates is the fact that it has in most cases been a unilateral decision made without adequate attention being paid to the impact of such change on general world conditions.

One of the advantages of requiring multilateral approval as a condition of alteration of currencies would be to assure joint consideration of the merits of the proposed action and thereby avoid unilateral action taken to obtain presumed competitive short-run advantages irrespective of the impact of the step on other countries or even the same country. The very discussion of the problem by the numerous governments concerned would in itself be a potent influence to avoid unnecessary changes and it would be an assurance that when a change is agreed upon it would not be a signal for other countries to follow in their own real or presumed interest.

For a country to suspend its independence of action and consult on a matter of such importance as a change in the value of its currency would not be a wholly new development. The arrangement between England, France, and the United States, known as the Tri-Partite Declaration, to which a number of other countries subscribed, provided for such co-operation. The arrangement worked tolerably well during a difficult period, but it will have to be strengthened and improved if it is to meet adequately the needs of the critical years to come.

I believe that new international agencies are called for—agencies with powers and resources adequate to handle the complex and grave problems with which we shall be confronted, not only during the immediate postwar period, but thereafter. There is urgent need for new instrumentalities that will pave the way for a high degree of co-ordination and collaboration among the nations in economic fields hitherto held too sacrosanct for multilateral sovereignty. A breach must be made and widened in the outmoded and disastrous economic policy of each-country-for-itself.

I believe the United Nations should establish an international stabilization fund and an international bank. They could provide for an orderly adjustment of exchange rates to the new conditions that will prevail after the war. They could provide the resources necessary to

maintain stable currencies where it is desirable and an orderly method of readjusting exchange rates when it becomes necessary. They could also provide a large part of the capital needed for reconstruction and provide it on terms that would assure its effective use and repayment.

We in this country should face the fact that the success of international monetary co-operation will depend primarily on the participation and leadership of the United States. The dollar is the one great currency in whose strength there is universal confidence. It will probably become the cornerstone of the postwar structure of stable currencies. The United States holds the greater part of the world's resources of gold and foreign exchange. These resources must be available to give assurance of universal strength and confidence in the stability of currencies.

We must also remember that it is not enough to establish international agencies. We must also make possible the successful functioning of such agencies through the right domestic policies after the war. Foremost among these policies should be the elimination of unemployment. Full employment in this country will provide additional foreign exchange resources to other countries through our large imports and tourists expenditures. It will facilitate the reduction of high tariffs and of exchange and trade restrictions and will encourage the resumption of foreign investment by Americans.

Stabilization of currencies is not an end in itself, but only a means to full employment and a rising standard of living. Nevertheless, stable currencies are an important element in the healthy environment which is indispensable to the attainment of that full employment and rising standard of living everywhere. We cannot ignore the importance to us of promoting prosperity in other countries as well as our own. We must learn the fundamental truth that prosperity, like peace, is indivisible.

DISCUSSION

A. F. W. PLUMPTRE: Speaking as a foreigner—or perhaps as a Canadian amongst Americans I should say as a semiforeigner—I would like to say at the outset how pleased I was by one aspect of the three papers which we have heard. They all emphasized the importance of approaching the problems under discussion from the point of view of the United Nations. As a member of one of the smaller of the United Nations, I particularly appreciated Mr. White's vigorous contention that new international financial machinery in the form of an international bank and an international stabilization fund should be established on behalf of all the United Nations. Mr. Staley recommended the establishment of a new international organization which would administer the distribution of lend-lease supplies, and here again all the United Nations were to have a voice in its direction.

Turning specifically to the papers on the economic effects of lend-lease, there are two points which I should like to raise. The first point concerns the matter of equality of sacrifice. Both Mr. Staley and Mr. Rostow expressed approval of this principle, and in doing so they referred to the *Fifth Lend-Lease Report* issued last June. I must admit of some apprehension in relation to the wording of the relevant paragraph of that report (as reproduced in Mr. Staley's paper). The suggestion is clearly made that equality of sacrifice is attained if each country assigns an equal proportion of its national production to war purposes. Mr. Rostow warned that this ought to be read, not literally, but as a broad approach to the topic. I would agree with his advice, but we cannot be sure that everyone will accept it.

If the words of the report are taken literally it implies that, when approaching the problem of equality of national sacrifice, we should be guided by the principle of proportional taxation—and not progressive taxation. Now the principle of proportional taxation is very comforting to the richer members of any community and this applies to the international community; but nowadays most people agree that progressive rather than proportional taxation yields justice.

I admit that I used to view with some approval comparisons of the proportion of national income devoted by various countries to the war effort. But this was in the days when the American proportion was relatively low and the Canadian and British proportion was relatively high!

Nowadays, when these comparisons are tending to shift to the advantage of the Americans, I am less favorably disposed towards their use. It is becoming quite clear that the United States would not fully exert itself in the common cause if its war production program were limited so that the proportion of its capacity devoted to war was similar to that of either Great Britain or Canada, let alone such countries as Russia or China, which, being basically much poorer, can afford to allocate a much smaller proportion of their national incomes to war.

The second point which I wish to raise in regard to the lend-lease papers concerns the effect of lend-lease operations on the current channels of trade. I am interested to note that neither of the Americans reading papers on

lend-lease has mentioned this point. I am sure it would not have been forgotten by an Englishman.

I would like to mention three instances of ways in which the channels of trade are being shifted by lend-lease operations. All of these examples are Canadian. I use them, not because the impact of lend-lease operations on Canada is great (Canada, as you know, is not a recipient of lend-lease), but because, being Canadian, I happen to be familiar with the situation there. Further, these Canadian cases emphasize the strange indirect repercussions of current lend-lease operations. My three examples are as follows:

1. Before the war Canada was importing a large variety of metal products from the United Kingdom. Now, under the British White Paper relating to the operation of lend-lease, Great Britain has practically ceased to export metal products to Canada. It is considered inexpedient that Great Britain should obtain steel under lend-lease and then export steel products. Accordingly, Canada has to purchase these products in the United States, and trade connections with Great Britain are being broken.

2. There has been some shift, probably very slight, in Australian purchases which were previously made in Canada and which are now made in the United States under lend-lease. It so happens under existing arrangements within the British Commonwealth, that when Australia buys in Canada she gives up cash, i.e., "London funds," but she can purchase in the United States on lend-lease. Accordingly, it appears cheaper to Australia to obtain supplies in the United States. Of course, I do not wish to imply that there has been a wholesale shift of trade on this account; I am sure the American authorities would not permit it even if the Australians desired it. On the other hand, the pressure in that direction exists and I am sure that cases can be found to illustrate the movement. Well-established trade connections between Canada and Australia are being cut off.

3. Questions are being asked regarding Canadian exports of certain agricultural products to the U.S.A. It is being pointed out that similar products are being sent by the U.S.A. to Great Britain under lend-lease and it is argued that the U.S.A. ought not to buy from Canada commodities of a type which are being lend-leased to the United Kingdom. A Canadian must view this situation with some concern. Our agricultural markets in the U.S.A. were built up with very considerable difficulty and against a high tariff hurdle which was raised from time to time just when it hurt most. From the postwar point of view, loss of these regular markets in the U.S.A. would be a particularly severe blow.

These three examples have an important attribute in common. In each case the shift of trade favors, accidentally no doubt, the "mercantilist" interests of the U.S.A. In other words, in each case either American exports are increased or American imports diminished. It is important to realize that these movements are exactly the opposite to what the postwar exchange situation demands. As Mr. White's paper suggested, there will, at any rate for a time, be a tendency for U.S. exports to be too large and U.S. imports to be too small. In short, the American balance of payments is likely to be

unduly favorable in the immediate postwar period, and lend-lease operations are tending to realign trade in a way which will aggravate that situation.

This condition arises from the fact that a new medium has been introduced as the basis of international exchange. We are used to the international movements of goods on a cash basis (direct trade). We are used to the movement of goods on a credit basis. We have also recently seen the movement of goods on a gift basis, as exemplified by Canada's billion dollar gift to Great Britain in 1942. Cash, credits, and gifts are all familiar; but lend-lease arrangements introduce a fourth and novel basis of international trade—an uncertain obligation to be assessed by an unknown person on an unspecified day of judgment. It is this novel medium of international trade which is causing disturbance in its channels.

Before closing, I would like to make a final comment on all the three papers. None of them, as far as I can recall, mentioned the word Congress. I hope that this means that each of the authors expects his proposals to be adopted by Congress without demur. On the other hand I rather suspect that a discussion of Congressional attitudes was omitted for other reasons.

I would particularly like to call attention to the fact that Mr. Staley began by praising the Lend-Lease Act, at the time of its inception, as a stroke of genius. In doing so he gave a political judgment. He meant, I think, that the lend-lease formula was a very good formula for bridging the gulf between what was necessary externally and what was practical internally in the United States.

Mr. Staley also introduced a certain amount of evidence, based on public opinion polls, which suggested that most Americans differed very substantially from himself regarding the disposal of lend-lease obligations. In the light of that evidence, and in the light of what one reads regarding the probable attitudes of the newly elected Congress, one is led to wonder whether the lend-lease formula may not still be considered, in its way, a stroke of genius.

John H. Cover: From Dr. Staley's stimulating paper on lend-lease, I infer that both giving and receiving should be made more blessed. Most certainly as a war weapon the instrument must not emerge a boomerang.

Wartime supply allocation has two phases: (1) priority decisions as to uses and designations; (2) provision of commodities and services.

Designation of the recipient is of the nature of joint strategy determination, and the establishment of a United Nations authority would appear a logical step. Allocation of military equipment and ammunition may derive automatically from established military strategy. It may be feasible to provide food in accordance with a program of calories and vitamins. More difficult is the designation of copper wire for power stations or communication systems in various parts of the world, or determination of the preferred use of rubber.

Establishment of a physical pool of war materials is unlikely, since the whole system of priority and allocation is due to scarcity of materials and their immediate absorption upon production. Allocations are determined on a forward schedule with production and delivery timed months in advance.

But a joint holding and distributing authority, eliminating the giver-receiver status, should alleviate many problems of serious future import.

With designations of uses and recipients completed, the materials, equipment, or services still must be provided. This requires a draft upon a national government. The government provides funds for the purchase of materials from individuals or concerns who hold property rights and profit motives.

Consequently, particularly as United Nations warfare becomes increasingly an offensive and each nation feels more secure defensively, allocation decisions should become increasingly unified. But the requisitioning of supplies must remain a national affair; and we are all cognizant of the veto power over allocation residing in withheld approval.

Relinquishment of ownership in materials to a United Nations authority would obviate, as Dr. Staley suggests, the bilateral nature of negotiations and agreements, and would dispose of the dangerous problem of creditor-debtor relationship and staggering postwar financial obligations. Capital goods remaining intact after the war could be made available under international auspices toward rehabilitation of devastated countries or policing of chaotic areas.

Projection of a modified lend-lease concept into international rehabilitation and reconstruction has vital implications. It is closely associated with the establishment of an international organization and the alleviation of restrictive economic obstacles.

Sharing of resources is one of the fundamental reconstruction tenets. It is more than emergency charity; it is an investment in our own future economic stability. The principle of ability to afford and of equality of sacrifice has as a corollary the degree of need and of benefit.

Repercussions upon individual and national life are potentially tremendous. A few of the possible results may be listed:

The supplying nation relinquishes certain special privileges of economic power; competitively this may appear foolhardy, but, in the long run, it opens opportunities for trade and investment with clients of rising purchasing power.

The recipient nation assumes a social responsibility in sponsoring the rehabilitation of its people, and thereby establishes a precedent for programs of social security and improved living standards for its citizens.

It is conceivable that progressive liberalism may become more fundamentally a characteristic of the recipient than of the supplying state. Certainly, the latter must carefully guide its reactions from the path of isolation and power concentration. A wisely administered program of rehabilitation by an international authority will encourage an international mind and translate the aided peoples into international citizens. It is more difficult for a state economically powerful, with abundant resources privately owned and a profit boom incipient, to alter its concepts even for its own survival. The initial advantage is with the "have-not" state, since it is starting anew under international auspices.

Therefore, it seems urgently essential for international agencies to begin

functioning. Among them should be boards of technically competent men to interpret specifically and implement the Atlantic Charter and the Master Agreements. There is vagueness about freeing from fear and want "all the men in all the lands" as compared with assuring to "all states" access "to the trade and to raw materials of the world." What is to be the status of nations and of men? Even my friends who are expert in international law find difficulty in identifying the international aspects of these differences.

As international programs are formulated, I believe it will be discovered that a modified lend-lease function, with a multiple-nation authority in control, has a significant place in world rehabilitation and reconstruction.

THE CASE FOR MULTILATERAL TRADE

By Folke Hilgerdt
League of Nations

A World System of Multilateral Trade

The case for multilateral trade has frequency been argued in vague and general terms. It is easy enough to point out that the requirements of any two countries for each other's products cannot be expected to be equal, and that, accordingly, certain advantages gained from international trade depend upon triangular or multilateral settlement. But this truth—or shall we call it truism—does not carry us very far. Nor do the tools of deductive reasoning to which economists usually have recourse.

In fact, multilateral trade is a subject which can best be approached by statistical research. When we have explored the multilateral pattern or patterns according to which payments among nations are normally settled, we may be able to consider the case for multilateral trade in specific terms and with an understanding of the subject that cannot be acquired otherwise.

Such a study presents no easy task. Each country as a rule exports on balance to certain countries and imports on balance from others. As there are some 200 "countries" (or statistical areas) to consider, the student is faced with what may appear a most confused and involved network of bilateral trade balances. The difficulties of analysis are increased by statistical imperfections of various kinds, including the lack of adequate information concerning international transactions other than trade in goods.

Without pretending that all these difficulties have been overcome, I am happy to present a few details of an inquiry on multilateral trade that has been pursued over years.[1] The figures I am going to show refer to merchandise trade alone, the importance of which in international business transactions is overwhelming; but they give a clue to the manner in which payments on account of other transactions are settled.

One of the chief results of the inquiry was the fact that normally almost all the bilateral balances of trade of almost all countries are involved in what may be called the world system of multilateral trade. When the work started, it did not seem necessary that this should be

[1] For more detailed information, see *The Network of World Trade* issued recently by the League of Nations. It should be observed, however, that the following pages give certain particulars not included in *The Network of World Trade*.

the case; it was thought possible that the chief balances of trade migh be accounted for by triangular or multilateral settlement within smalle groups of countries and that only minor balances might have serve settlement among the groups. The fact that all but a few countrie partook directly in a world-wide system of settlement naturally stresse the importance of international interdependence so frequently over looked in the past.

The outline of this system became clear when it was found that al most all countries could be arranged in the order of the direction o their balances of trade, so that each country had an import balanc from practically all countries that preceded it in the list and an expor balance to practically all countries that succeeded it.

At the beginning of this list we find the tropical debtor countrie with export balances in almost all directions, and at the end of it th European creditor countries with import balances from almost al countries, the United Kingdom being the most typical case. But be tween these two extremes the countries arrange themselves in an orde that is not necessarily determined by the absolute or relative magnitud of their total balances of trade.

A synoptical view is afforded by Chart 1, in which countries repre senting nine-tenths of the world's trade have been arranged in th order just referred to. Only the three largest trading countries—th United Kingdom, the United States, and Germany—are shown sep arately; the other countries are grouped in three categories: the Tropics the regions of recent settlement in the temperate belts (including th British dominions, the Argentine, Uruguay, and Paraguay), and Europ with the exception of the United Kingdom and Germany. The yea considered is 1928, since in the thirties the system was disturbed b factors which we shall consider later.

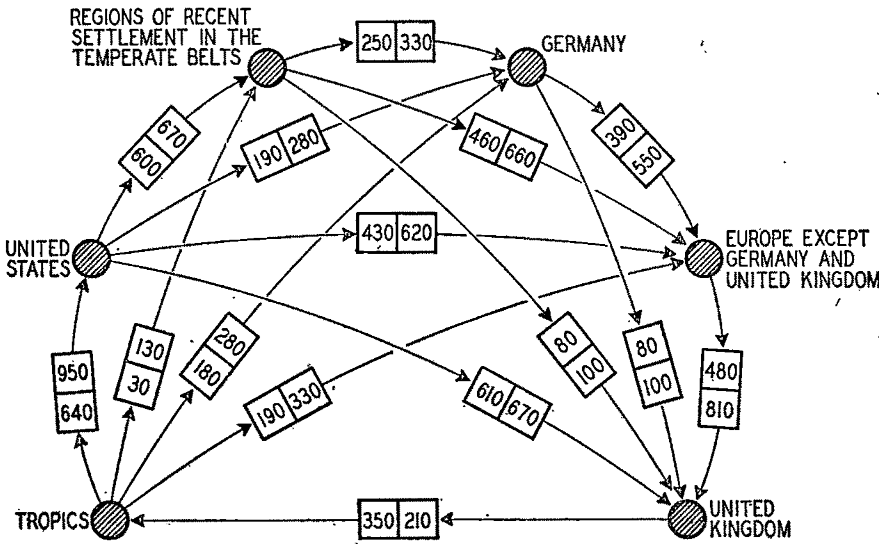
The figures in the chart represent the balances of trade, in million of dollars, among the six specified countries or groups, after the trad values had been adjusted so as to represent "frontier values" in case where imports are not recorded c.i.f., and certain other minor ad justments made. Of the two amounts shown on the arrow between an two groups, the smaller represents the export balance of the grou from which the arrow emerges, and the larger the import balance o the group to which the arrow points. Obviously the inclusion of freigh in imports tends to increase the import balances and to reduce th export balances; if freight between the areas concerned were exclude throughout (as, for instance, in United States trade returns) the bal ance of trade would be about midway between the two amounts show

Naturally, the real network of trade balances is more involved tha

the chart suggests. If we had not grouped numerous countries into three composite categories but shown them separately, the picture would have been more complicated; but it would have afforded the same general impression.

CHART 1

The System of Multilateral Trade, as Reflected by the Orientation of Balances of Merchandise in 1928.



Note. Balances in millions of dollars, calculated from adjusted frontier values of trade (imports valued c.i.f., exports f.o.b.). Both import and export balances are shown; the smaller of the two figures in each square represents the export balance of the group from which the arrows emerge, and the larger figure the import balance of the group to which the arrows point. The difference between the amounts in question is due largely to the inclusion in imports of transport costs between the frontiers of the exporting and importing countries. The figure for the import balance of the "Regions of Recent Settlement in the Temperate Belts" from the United States should be 690 instead of 670 as indicated in the chart.

The chief countries omitted from the chart are the U.S.S.R., which in fact entered the system between the "regions of recent settlement" and Germany; China, which if account is taken of "invisible" items and certain imperfections in the Chinese trade statistics, is found to fit in between the Tropics and the United States; and Japan whose international accounts appear to have been settled according to a more complicated multilateral pattern than that of most other countries.[2]

[2] Other nontropical countries of Asia and the North-African countries are also omitted from the chart.

An interesting feature in the system is the manner in which the three principal trading and industrial countries were sandwiched between groups of less important trading countries—the United States between the Tropics and recently settled temperate countries, Germany between that group and the lesser countries of continental Europe, and the United Kingdom between these countries and the Tropics.

The order in which the various countries enter into the system is not due to chance but determined by their climate, stage of economic development, financial position, and consumption habits deeply embedded in their economic structure. If we follow the arrows of the outer rim of the chart, we find that the United States had a big net import from the tropics, due to purchase of products such as jute, rubber, and coffee from countries not very dependent upon United States goods and indeed not able to carry on a bilateral trade with the United States as they required an export surplus to that country in order to pay interest and dividends due to European creditor countries. The United States import balance from the tropics was more than offset by export balances to other countries, particularly the "regions of recent settlement in the temperate belts"—sparsely populated areas, "white man's country," generally rich in mineral wealth, with vast plains suitable for agricultural production and in the process of industrial development. The United States does not import very much from these countries, as in fact she is herself a "recently settled" country with similar natural conditions; but as she is more advanced industrially, she is able to supply them with motor cars, machinery, etc., required for their development along the same lines as the United States. The regions of recent settlement thus had a net import from the United States and, indeed, from the tropics, paid for by a net export of foodstuffs and raw materials to Germany and other industrial European countries. Germany paid for her net imports from overseas by a net export to the rest of Europe; she was, of course, a net importer of primary goods and net exporter of manufactures of which four-fifths was absorbed by Europe. Other countries of Continental Europe, and particularly northwestern Europe, financed their net imports from Germany and from overseas in part by interest and dividends on oversea investments, but in part by net exports to the United Kingdom, which was a principal market for French fashion textile products, Danish bacon and butter, Swedish paper and timber, etc. It was in the form of such goods that the United Kingdom collected a large portion of the yield of her investments outside Europe and her income from shipping in oversea traffic.[3] Such income from tropical

[3] Or rather, the amount by which such yield and shipping income exceeded net capital exports to oversea countries.

countries was transferred in part by net imports from the United States; on the other hand, the United Kingdom had a net export to tropical countries, as her export industry had adjusted itself to the requirements of these countries during the long period of British capital exports to them.

Most of the trade balances entering into the system served the transfer, along roundabout routes, of payments due to European creditor countries on account of their oversea investments and shipping services performed. But the countries which neither made nor received such payments but were only intermediaries in the transfer were also well served: they found extensive export markets in countries where their own purchases were limited, and they could use the export balances resulting from such trade to finance indispensable imports from countries in which the market for their own export products was limited.

The United States occupies a rather unique position in the system. As the chart shows, her aggregate export balances to nontropical countries by far exceeded her import balance from the tropics. This is due in part to capital exports, and in part to the fact that a considerable portion of the export balances to Europe was offset by the expenditure of United States tourists and by immigrants' remittances. In other words, the export balances of the United States tend to exaggerate the importance of multilateral settlement.[4] But the direction of the net payments entering into such settlement is correctly depicted in the chart.

How the System Developed

To understand the nature of the system, we must know something of its history. Multilateral transactions probably began as soon as trade developed beyond the stage of primitive barter. But the particular world-wide system just described is not very old. It arose during the last few decades of the nineteenth century and was from the beginning linked up with the transfer of the yield of British investments. As these investments increased and the yield began greatly to exceed new British capital exports, the amounts due by the debtor countries began to be transferred in part through Europe and the United States. Industrial growth in these areas rendered them dependent upon a net import of primary products from overseas, paid for by the excess of exports to the United Kingdom that arose when their dependence upon British manufactures declined. Chart 2 shows the rising import balances of the United Kingdom from Europe and the United States from the late sixties to the first World War, in contrast to falling balances from

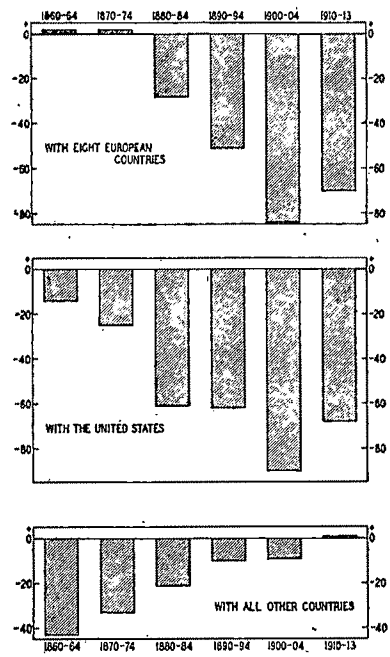
[4] The same may be true of the trade balances of certain other countries, particularly Germany. In certain cases, however, the inclusion of "invisible" items would add to the amounts liable to multilateral settlement.

the rest of the world, which had absorbed the bulk of the British oversea investments. The British investments in Europe and, later, in the United States tended to decline and by the twenties represented less

CHART 2

UNITED KINGDOM: TRADE BALANCES (GENERAL TRADE, COUNTRY OF SHIPMENT)

ANNUAL AVERAGES IN MILLIONS OF POUNDS

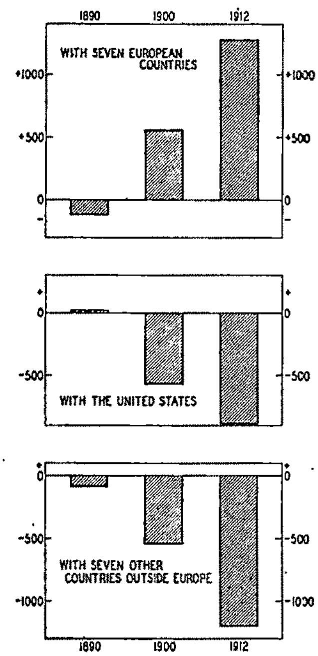


Note. The eight European countries shown in the upper part of this chart are: Belgium, Denmark, France, Germany, Netherlands, Norway, Spain, Sweden.

CHART 3

GERMANY: TRADE BALANCES

IN MILLIONS OF REICHSMARKS



Note. The seven European countries shown in the upper part of this chart are: Belgium, Denmark, France, Netherlands, Norway, Switzerland, and the United Kingdom.

The seven countries outside Europe in the lower part are: the Argentine, Australia, Brazil, Egypt, India, Netherlands Indies, and New Zealand.

than a tenth of the total. The income from oversea investments thus tended to be transferred by net imports from countries other than those in which the investments were made.[5]

[5] The chart exaggerates to a certain extent the rapidity with which triangular trade developed, since the figures are affected by changes in the recorded distribution of trade that resulted from the establishment of direct shipping routes to certain countries of Continental Europe. The inverse relation between United Kingdom net imports from, and investments in, important areas is strikingly illustrated by Diagram 7 in *The Network of World Trade*.

During the early years of this development trade became triangular rather than bilateral. The multilateral features of trade appear not to have developed until later. Thus, from the eighties Germany emerges as a separate link in the transfer chain leading to the United Kingdom. The rapid growth of German industry and the ensuing increase in German net imports from continents other than Europe were accompanied by an increase in German net exports, not to the United Kingdom, but to other European countries which in their turn had a net export to the United Kingdom. Chart 3 shows the development of the respective German trade balances between 1890 and World War I. It is probable that the trends illustrated by this diagram started somewhat earlier than 1890, since before the development of the German merchant marine establishing direct lines of communication with other continents some oversea imports into Germany were attributed to the Netherlands, Belgium, and France through which the products passed in transit.

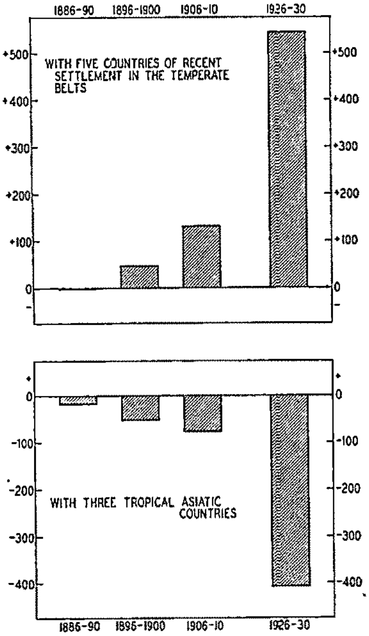
A few years after Germany had entered into the system, the "regions of recent settlement in the temperate belts" emerge as a separate group and enter between the United States and Germany. Certain of these regions in the Southern Hemisphere—the Argentine, Australia, New Zealand—profited greatly from the development of refrigeration rendering it possible to transport fresh meat across the equator to Europe. But while these countries replaced the United States as meat exporters to Europe, they used their export surpluses with Europe for financing a growing import balance of iron and steel, machinery, etc., from the United States. A similar development took place in Canada—another member of the "recent settlement" group—where the wheat belt was colonized. There arose a growing United States export surplus to Canada on account of the sale of railway equipment and other capital goods, though Canada financed these imports less by the export surpluses resulting from the sale of wheat to Europe than by capital put at her disposal by the United Kingdom.

Industry in the United States naturally profited from the acquisition of these new export markets. The United States became a net exporter of manufactured goods from 1897 and, about the same time, a net importer of industrial raw materials. The export balance with the countries of recent settlement thus became largely offset by an import balance with the tropics. The growth of these balances is shown in Chart 4. It continued after World War I and was an outstanding factor in the system of multilateral trade during the twenties. United States capital exports during that decade also contributed greatly to the growth of multilateral trade, as they supplied foreign currency to countries experiencing difficulties in the settlement of their accounts and

thus strengthened the weakest links in the transfer chains depicted in Chart 1.

The development of the system of multilateral trade, accomplished over a period of a few decades, was similar to the unfolding of a fan: more and more countries became involved, and their insertion took place in a given order, each country being farther away from the United Kingdom on the transfer routes to that country from its debtors. This development was undoubtedly as important to the growth of modern economy as it was neglected by economists. It is not by chance that we usually think of this economy as beginning to develop around 1870—the time when, as we have seen, the system of multilateral trade came into being—or that it agrees with our notions that international economy had reached a stage of maturity in the early years of our century, when the multilateral system had assumed the shape, if not the quantitative growth, that it retained until the early thirties.

CHART 4
UNITED STATES: TRADE BALANCES
ANNUAL AVERAGES IN MILLIONS OF DOLLARS



Note. The five countries considered in the upper part of this chart are: Argentina, Australia, Canada, Newfoundland, New Zealand.

The three countries in the lower part of the chart are: India, British Malaya, Netherlands Indies.

During the thirties the system was largely disorganized. Debt service payments were in part "shortcircuited"; the previous export balance of the United Kingdom to the tropical group was replaced by an import balance, and the whole superstructure of roundabout transfer was radically reduced. It is usual to attribute the disorganization of trade to the restrictive commercial policy, to clearing agreements, and to other devices aiming at bilateralism. Apparently the depreciation of sterling and the introduction of protective tariffs in the United Kingdom caused a change in commercial policy the world over, for no sooner had these measures been taken than there sprang up, almost overnight, a rich vegetation of trade restrictions in almost all countries directly or indirectly affected by the decline in the British import surplus from Europe.

But let us make no mistake about the causation. The changes in monetary and commercial policy were not causes; they were *results* of disturbances in international finance that culminated in the financial

crisis of 1931. The economic and monetary instability after World War I had given rise to big international movements of "hot money" either seeking speculative gain or simply seeking to avoid loss. French funds alone, invested in the big international money markets and re-lent through them to debtor countries all over the world, equaled several billion dollars. A large-scale withdrawal of these funds was initiated when the French franc was legally stabilized in June, 1928, and continued unabated until the crisis occurred in 1931. Let us consider what takes place when short-term capital is being rapidly withdrawn from a country. The currency derived from that country's export surpluses in certain directions is being transferred abroad in the liquidation of debt and thus cannot fulfill its usual function of financing import balances in other directions. The currency situation thus tightens both in the country in question and in those from which it used to derive its net imports. In such a situation it is customary to have recourse to measures of commercial policy. But because of fear of retaliation, countries usually avoid imposing import restrictions on manufactured goods or foodstuffs from a country with which they enjoy an export surplus. If a country A reduces its import balance from country B, the latter cannot retaliate but must reduce its imports from country C, with which it has an import balance, and so on. Thus, the restrictions, spreading like wildfire, aim directly at reducing bilateral balances, and countries tie each other by ties which they cannot loosen by either unilateral or bilateral action. Equalization of trade balances in one direction entails equalization in others. This was, briefly, what happened during the early thirties, and there resulted a general economic warfare which lasted until the war broke out.

The Case for Multilateral Trade

So much about the system of multilateral trade, its organization, its development and decay. There would, of course, have been much more to say about this if time had permitted. But even the short summary made permits of drawing significant conclusions concerning the case for multilateral trade.

One thing is obvious from the outset. The problem that confronts us is not concerned primarily with the necessity of multilateral trade for any particular country, for the supply of any particular article, or for the satisfaction of any particular demand. Nor do we wish to discuss the desirability of multilateral transactions in general terms, but rather the case for a well-defined system of multilateral settlement embracing all important trading countries. Briefly, the problem is one of world economic equilibrium. The history of the thirties has given us a clear example of the effects upon monetary, financial, economic, and political

relationships among nations that occur when the system of multilateral trade is disturbed. I shall deal briefly with these various aspects.

Monetary Aspect

The minimum required for international monetary equilibrium, besides a certain degree of exchange stability, is a uniform valuation of each currency in all foreign markets; that is, local differences in the supply of and demand for each currency should be overcome through arbitrage transactions. But we must always keep in mind that currency arbitrage is only apparently a question of banking operations. Let us suppose that there is an excess of A currency in country B and a deficiency of the same magnitude in country C. Normally, the exchange value of A currency will nevertheless be the same in B and C, for B is likely to sell its surplus to C, *provided,* however, that C can pay by a net export of goods, services, gold, or securities to B or to other countries which, in their turn, export on balance to B. Currency transactions, if they are not compensatory, do not settle anything; they are only the reflection of the parallel exchange of goods or other wealth.

Our argument thus runs as follows: (1) uniform valuation in different markets of each currency is a primary condition for international monetary equilibrium; (2) such valuation is possible only if each currency can be freely turned into any other currency at nondiscriminatory rates of exchange; (3) but such currency operations are possible only through the multilateral exchange of goods, services, etc., of which they form the counterpart.

Thus, the blocking of the channels of multilateral trade is not compatible with the application of a world-wide system of nondiscriminatory exchange rates for all currencies; it implies, for instance, the sort of chaos in international monetary relationships that existed in the thirties, when countries applying exchange control in fact, if not always in form, maintained different rates of exchange for different types of transactions or even for trade with different countries. It is easy to see why certain countries should have recourse to exchange control when their currency is exposed to pressure. Given that the natural tendency of each country is to have export balances in certain directions offset by import balances (or debt service obligations) in others, such pressure is likely to be felt only in their business relations with certain countries. This is just a situation in which nondiscriminatory currency depreciation, as an alternative to exchange control, may appear uneconomical.

In view of what has been said, it is no wonder that the world-wide application of the gold standard—which we are accustomed to associate

not only with exchange stability but also with the feasibility of free transfer from one currency to another—covers the same period as the world system of multilateral trade which we have examined; namely, from the early seventies[6] to 1931, with the exception of World War I and the years immediately following it.

Exchange stability is not a prerequisite for international monetary equilibrium of the same kind as uniformity of exchange rates applied in different markets. Its importance is more indirect but may be as great, as we saw from our historical analysis. The lack of exchange stability is likely to lead to the formation of speculative migratory funds the withdrawal of which may disturb the system of multilateral trade, as it did around 1930.

Financial Aspect

As we have seen, interest and dividends due from overseas to European creditor countries are normally transferred through multilateral trade. Blocking of such trade accordingly hinders the transfer of capital yields, except insofar as trade channels can be diverted so as to permit of transfer in bilateral transactions between debtor and creditor country. To achieve this, the creditor country may endeavor to increase its import from the debtor country, or to reduce its export to it. An increase in imports is generally limited, for the investments had generally served the development of the debtor country's export to the world market. With the best will in the world, the United Kingdom and the Netherlands, for example, would not have been able to absorb more than a fraction of the rubber exported by the Netherlands Indies and British Malaya, two-thirds of which normally went to the United States. But even a reduction in exports from creditor to debtor country has its limits, besides being of great concern to the export industry. From the experience gained during the thirties, we know that creditor countries are by no means willing to sacrifice their export industry; rather, in the conflict between financial and economic interests, they are likely to sacrifice the financial. But even if they do not, the transferable yield of investments is likely to decline.

When such a decline occurs, the market value of direct investments decreases, and investments in bonds are likely to be repudiated, as happened on a large scale in the thirties. Consequently, it does not pay to make new investments, and a tendency arises to liquidate outstanding investments, even at a loss. The development of world resources by means of capital from the wealthier countries ceases, a condition which, sooner or later, will affect all countries. The rapid and general economic progress of the period 1870-1930 would not have been pos-

[6] More exactly, 1873; cf. William Adams Brown, Jr., *The International Gold Standard Reinterpreted, 1914-34,* Vol. I, p. xv.

sible had not the system of multilateral trade facilitated the development of production in economically young countries with the aid of foreign capital.

Economic Aspects

We just mentioned that in the creditor countries not only finance but also the export industry is affected by the disorganization of the system of multilateral trade. More obvious, however, are the effects upon the economies of several countries situated along the roundabout transfer routes between debtor and creditor countries. As their export balances towards the countries on the right of Chart 1 are reduced or disappear they can no longer finance their import balances from countries shown to the left. As the latter countries (particularly the tropics and the "regions of recent settlement in the temperate belts") are the chief suppliers of primary products, there arises the problem of commercial access to raw materials which overshadowed commercial and political relations during the thirties. In the light of our analysis this problem is reduced simply to one of maintaining a working system of multilateral trade.

As the monetary demand for primary products which many countries can exercise in the world market is thus reduced, the prices of such goods decline and unsalable stocks pile up in the exporting countries. This increase in stocks and the inability of other countries to buy are two sides of the same phenomenon. The price fall naturally spreads from international to national markets. As long as only primary goods decline in price, a boom tendency may be released in industrial countries, owing to the widening producer's margin between the cost of raw materials and the price of the finished product. But when the price fall spreads to finished goods, an industrial depression is likely to set in, and all branches of economic and financial life are affected. In such a situation countries are likely to protect their national price level by means of import restrictions.

Some Aspects of Commercial and General Policy

If world-wide settlement of payments breaks down, nations will try in their foreign transactions, to bring about settlement that is bilateral or confined to a limited group of countries. Such a policy involves discrimination, the establishment of empire preferences, the end of the policy of "the open door." Almost all the "empires" applied discriminatory policies intensifying their internal trade in the thirties; and the previous export balances of mother countries to their oversea territories were reversed as capital yields could not be transferred in multilateral trade. Countries outside empires and complementary to each

other in their economy are under these circumstances induced to increase their mutual trade, and this to an extent and in a way that easily endangers the economic and political independence of the weaker party in this relationship. Meanwhile the "world market" to which previously all countries, great or small, developed or undeveloped, had access on equal terms as buyers or sellers disintegrates or is being confined to one sector of the world; outside that sector the exchange of goods is taking place at prices that are higher, calculated in terms of the currencies which, by means of exchange control, are held at a level exceeding that which would otherwise have established itself. Exchange control, however, necessitates a wasteful administrative apparatus and is even so never watertight.

Concluding Remarks

It is legitimate to ask whether all these disturbances, which at least over a limited period have a tendency to grow increasingly grave, are really of a permanent character. The multilateral trading system was a result of historical growth. May we not expect that conditions of production, after a more or less difficult adjustment process, will adapt themselves to bilateral or empire exchange so that a new equilibrium will finally arise without the need for a world system of settlement? Or, to put it otherwise, were not the international economic difficulties of the thirties only the painful experiences of a period of transition to a new world in which multilateral settlement will be outmoded?

We can, I believe, reply to this question in the negative. True, conditions of production can be adjusted to a certain extent in each area; but climate, soil, and geographical position cannot be changed. These natural conditions vary to such an extent that a high degree of specialization of production for world distribution will always be extremely advantageous; and such specialization is possible only if trade follows a multilateral pattern. Failing this, there will always be a strong incentive for each country to increase the efficiency of its economy by including foreign areas under its domination. To ascertain the functioning of the multilateral trading system is therefore not only an economic task, it is also an object of general policy, as it reduces tensions of the kind that are instrumental in bringing about war.

What has been said may be enough to show that there is hardly any important aspect of modern economy that is not adversely affected by the breakdown of the system of multilateral trade. This is due less to the fact that all economic phenomena are interrelated than to the very central importance which multilateral settlement on a world-wide basis occupies in peacetime economy. We can no longer afford to ignore a factor exercising a determinant influence on international mone-

tary equilibrium, on international finance, on the level of prices formed in the world market (and, through them, in national markets), and accordingly on production, employment, and the course of the business cycle. When the question arises after the war of co-ordinating the economic policies of different countries and terminating the era of economic warfare that has now lasted more than a decade, the re-establishment of the system of multilateral trade will have to come into the foreground.

But we cannot assume that the channels of such trade after the war will be the same as those which existed in the twenties. In particular the liquidation of a great portion of the British investments overseas the destruction of wealth during the war, the development of the technique of production and of new products (such as synthetic rubber) and perhaps even more the probable development of air-borne trade on a large scale, may tend to modify these channels. Adjustment to a system of multilateral trade that would suit postwar conditions might well prove a painful process; but it is the only alternative to the maintenance of a disrupted world economy.

When considering the future, we must be on our guard against the common misconception that the chief obstacles to international settlement lie in the field of monetary transfer. In recent years, several ingenious schemes of what in practice amount to universal clearing have been invented with a view to compelling each country to make immediate use of the foreign currency accruing to it from its foreign transactions and thus preventing the formation of heavy short-term debts repayable on call. Our problem, however, is not so easily solved. If we force international settlement of payments (for example, by allowing unused claims resulting from exports to depreciate or become valueless), we force a corresponding multilateral exchange of goods and services which does not reflect each country's true requirements of foreign products and accordingly does not agree with the pattern of multilateral trade that would have been determined by economic factors. We naturally wish that trade—and accordingly the monetary settlement which only reflects trade movements—should be established in agreement with this multilateral pattern, or with a pattern very close to it. Our main object is not the settlement of monetary claims but the mutilateral exchange of goods and services that provides for the international economic integration of countries in a manner profitable to all If this can be achieved, there will be no reason to replace the traditional forms of monetary settlement with multilateral clearing, at least in a world where there is a reasonable degree of monetary and political security and where there is thus no particular reason for exporters in any country to pile up short-term assets abroad.

The international integration we have in mind will have to be achieved by co-ordination of national economic policies, particularly in the field of foreign trade. We have already found that the trade restrictions imposed since the early thirties cannot easily be removed by unilateral or bilateral action; and the changes in world economy taking place during the present war afford additional reason for believing that the restoration of multilateralism on sound principles will require international planning on an extensive scale. It may prove necessary to invent new instruments of commercial policy to open up the channels of multilateral trade. But to go deeper into this matter would fall outside the scope of a paper which aims only at contributing to the understanding of such trade.

EUROPEAN ECONOMIC REGIONALISM

By ANTONIN BASCH
Columbia University

It is not our purpose to offer blueprints for a United States of Europe, or for any kind of federation, but rather to examine various economic aspects of the problem of European economic regionalism. Our discussion, faced with many unknowns in the field of politics as well as economics, obviously must start with several assumptions. Our first assumption is that the general economic objective recognized at present as desirable for the postwar economy is the policy of an expanding economy and world trade, aiming at an increase in the level of living. Secondly, we assume the attempts to achieve full employment in the industrial countries and economic development involving industrialization of the backward countries of Europe, to be also desirable.

I

How could the carrying out of such a program in Europe be facilitated by regional economic agreements? Generally, the purpose of such an agreement is to develop the trade between the member countries on a larger scale than it is believed would be possible under the most-favored-nation clause. The demand for such agreements grew chiefly during periods of economic depression and was intensified by a strong economic nationalism. These agreements take various forms, ranging from full custom unions to open or concealed preferential regimes.

In discussing the relation of the idea of economic regionalism to the European Continent, without considering Great Britain and the Union of Soviet Socialist Republics, we must not overlook a difficult problem which will confront this part of the world after the war and which is not limited solely to the period of postwar relief and rehabilitation. This major problem concerns the balance of payments of the European Continent with relation to the rest of the world. The situation will be much more difficult than it was in the prewar period, for the following reasons: The amount of gold and foreign exchange reserves, as well as foreign investment, was reduced during the war. The rapidly growing industrialization in the overseas markets will doubtlessly affect the volume and structure of European exports. While it is difficult at present to offer any evaluation of this trend, a needed readjustment on a large scale can be taken for granted. Furthermore, whereas the European countries had an export surplus with Great Britain of about 500 million dollars during the year immediately preceding the war, the now changed situation of Great Britain not only jeopardizes this export

surplus but sharp competition between British and other European products in the overseas markets is probable.

This important problem of the balance of payments of the European Continent with the rest of the world could hardly be fundamentally changed by creating large economic unions and regional economic groups in Europe without a simultaneous international economic coordination. We do not even mention the danger of a possible policy of protectionism initiated by such a development. The trend of the policies of international trade will decisely determine the policies and positions of the European countries who have to find their way back into world economic co-operation. An increased trade with the Union of Soviet Socialist Republics could perhaps replace some of the lost markets in other continents and could function as an incentive for the expansion of European trade.

While there might be some objection against discussing the balance of trade of Continental Europe as a unit, the close interrelation of inter-European trade, together with the economic structure of Europe, justifies this procedure. Changes in trade of one European country with the rest of the world always have an immediate repercussion upon the other parts of Europe.

For further discussion we should make some other general assumptions. In the political sphere, a concept of "United Nations" is envisaged, which in accordance with the Atlantic Charter and the carrying out of peace treaties provisions, would provide political security, prevent new aggression, and gradually restore world confidence. Such a method of organization is important, chiefly for the small nations. As to international economic relations, the general demand for the expansion of world trade obviously calls for a reversal of the prewar movement towards self-sufficiency of all kinds, particularly in agriculture. If such a policy becomes a reality, it will apply not only to the relations between the European countries and the other continents, but it must also become a guiding principle for inter-European trade in order to achieve a greater integration of the European economy.

II

After the last war, it was pointed out that there were two Europes: the wealthy one, with highly developed industry, and the poor one, with undeveloped economy and extensive agriculture. In the years immediately preceding the war, a new division was found to exist. One consisted of those countries whose economies were already largely influenced and nearly dominated by the German armed economy, following the policy of autarchy, and thus detached from the world markets, and the other still maintaining more normal relations with the

world market. The poor section of Europe belonged in a great part to the German economic system.

The task of a greater economic integration of Europe is connected largely with the problem of agriculture and of economic development of the retarded areas, which represents the last European reserve for a really huge expansion of consumption of all kinds of goods.

The policy of self-sufficiency in food pursued by a number of countries increased further the existing differences in prices and aggravated the crisis in the Danubian Valley. Great differences existed between the domestic prices of agricultural products on the European Continent, although the climatic and soil conditions are quite similar in many parts. The high-cost producing countries—Germany, Italy, Austria, Czechoslovakia, France, Switzerland and some others—accounted together for about 15 per cent, of the world production of wheat (including Russia). They have been, of course, the old and natural market for the agricultural surpluses of Eastern and Southeastern Europe. Among the leading causes of economic crises in the Danubian countries, the policy of an exaggerated protectionism of these high-cost producing countries takes an important place. An expansion of international trade is of course not possible without a reversal of the policy of autarchy. The abandonment of the exaggerated agricultural protection, and also omission of an attempt to create industry artificially, would greatly contribute to the economic integration of Europe. Among the postwar aims, great emphasis is being laid upon the improvement of the standard of nutrition which would lead automatically to an increase of agricultural production as a whole. But the acceptance of such a policy of nutrition must also involve a determination to reduce radically agricultural protectionisms and, by doing so, to increase world trade. Such a program conforms to the needed structural changes in European agriculture. There is required a shift in agricultural production—first in those high-cost producing countries—from energy food to more protective food of various kinds. And there is no doubt that these countries, with a relatively high level of efficiency, are better prepared for such necessary reorientation of their agriculture than are the Danubian countries with low efficiency and dependent greatly upon outside aid.

This very important program, aiming at more gradual integration of the European economy, could be effected through the usual instruments of foreign trade. The experience obtained during the postwar period of transition will perhaps be ample enough to indicate whether Danubian agriculture will be able to compete with the overseas production better than it did during the last crisis. Should this not be fully the case in spite of a correct monetary adjustment (choosing the appropriate rate for stabilization of currencies) and of all other measures

needed for this purpose, then for a short period before such full adjustment is achieved a solution could be found in international agreements, as it was for example in the international sugar or wheat agreements. Agreements of this type would grant certain export quotas to the agricultural exporting countries in Europe. Another method might consist of an internationally supervised, time-limited, and gradually declining, preferential regime similar to that proposed by the Stresa Conference in 1932.

III

If the agricultural policy in postwar Europe should follow the principles just mentioned—abandoning the old ideas of self-sufficiency in bread cereals which was supported especially during the last decade by preparation for war or by considerations of defense—it would greatly help in solving the very difficult problems of Eastern and Southeastern Europe. Whenever the question of regional economic agreements became urgent, the discussion usually centered about the Danubian countries. Let us look briefly at the experience accumulated in this regard after the last war. The possibilities of a preferential regime between Czechoslovakia, Austria, and Hungary, envisaged by the peace treaties for a five-year period, were not used. It may also be said, among other reasons, that the big powers were definitely not in favor of any such solution, as was clearly illustrated by their attitude at the Geneva Economic Conference in 1927.

Tardieu's plan of a Danubian federation in 1932, proposing a preferential regime for this group of countries, could not be realized, more because of the opposition on the part of the major powers than because of lack of unity among the Danubian nations themselves. The conference of Stresa in 1932 supplied further evidence of how little importance was attached by the Western powers to the problems which are very significant, not only for the mentioned areas, but for the whole of Europe.

Shortly thereafter, two regional preferential regimes were put into operation. Both—due to the unclear position in the commercial treaties—involved more or less concealed preferential treatments. The areas included were the Little Entente group—Czechoslovakia, Rumania, and Yugoslavia—and the Rome group—Italy, Austria, and Hungary. The chief purpose in both cases was to facilitate the export of agricultural goods from Hungary, Rumania, and Yugoslavia, as well as various Austrian products within the Rome group regime. The increase of the Yugoslavian and Rumanian agricultural exports into Czechoslovakia and of the Hungarian exports into Italy and Austria was achieved, not as a result of the adjustment of agricultural production in the import-

ing countries, but chiefly as a result of the geographical shift of the imports of these countries. Imports from more distant markets, even if cheaper, were replaced by imports from members of the trade group. The preferential regime was of great help to the exporting countries, each of which was able to obtain higher prices through drawback of the customs duties or in some other way. Though the situation of these exporting countries was improved with regard to some important export staples, the experience with the system itself was not very encouraging. It did not contribute to an economic integration in this area, it did not stop the trend towards an exaggerated industrial and agricultural protectionism, nor did it help in adjusting the costs of production.

The increase of trade within each of the groups resulted much more from the shift in the origins of the imported agricultural goods than from a general expansion of trade. Of course, all these attempts were emergency expedients, and they could perhaps have developed successfully in a real economic rapprochement if the general political circumstances had been more favorable. Because it is relevant to our further discussion, it should be pointed out that even a full customs union among the Danubian countries could not have disposed of their agricultural export surpluses. Of course, it would have strengthened their bargaining ability with the major powers and in particular with Germany.

IV

It is only too obvious that a discussion concerning economic regionalism in postwar Europe should be concerned chiefly with the countries in Central and Eastern Europe. Generally, the formation of an economic federation is recommended for this part of Europe. Consequently, the question actually to be considered is what kind of federation it should be and which countries should belong to it. There is a widespread belief that an economic federation or union should include all countries in the area between the Baltic and the Black and Aegean Seas. Such a union, with Poland, Czechoslovakia, Austria, Hungary, Rumania, Yugoslavia, Bulgaria, and Greece as its members, would have about 110 million population. Its natural resources are substantially larger than those of Germany, but the total national income of the whole area was not much over two-thirds of the German national income—the income per capita being in some parts only one-third, or even less, of the German national income.

The reasons which are usually given for the formation of such units are rather clear and at first convincing. The grave economic crisis in the thirties has been frequently attributed to the existence of these states and also to their economic nationalism. Even though this policy

was wrong, it remains to be proved that it was the main cause of the crisis. Present evidence could hardly be very conclusive.

An even more important reason lies in the fact that the German economic and military conquest was made possible and easier by taking these countries one by one. But this also was not the privilege of only these countries. All such considerations supply basically the political arguments for the formation of such units, backed at first more by a negative common aim; i.e., the defense against a new aggression. It is not our intention to discuss here the degree to which this negative goal would be adequate for a common policy by the bloc.

As to the economic reasoning, there also is a clear and again a seemingly convincing argument. The argument is that a national economy within a large territorial unit would undoubtedly accelerate the needed economic development of the whole area, establish a proper division of production, increase national income, and build up the economic strength of the nation, providing an adequate defense against any aggressors.

If this territory were inhabited by one nation which previously had been split up into a number of independent states, it would doubtless be easier to attain the objective of such a far-reaching program, even if great differences in the cultural, social, and economic spheres existed. But the question is this: Which is the most efficient system that might be applied in such a diversified and complicated area as this part of Europe encompasses? A frequent answer to this query is that the formation of a customs or economic union would develop, of itself, a sufficiently integrating and unifying effect upon the whole economy of this area. We might well ask to what degree we are able to accept such an assumption even if we could admit the whole idea as valid. We cannot use any historical analogy of a similar development; however, this might not be considered as necessary. First we must examine and analyze specifically what the concept of a customs union really is and what its purpose should be.

During the period of liberal economy, i.e., relatively free markets, the formation of customs unions might prove adequate by removing customs duties to increase substantially trade between the member countries and to work towards a certain unification of their economies. But growing economic interventionism has greatly changed the whole nature of this problem. No further argument is needed to show that a customs union could not fulfill its expected functions if concluded between one country with a private foreign trade and another with a governmental foreign trade monopoly or with foreign trade being centrally directed and controlled, as was the case in Germany. Similarly, there might be serious difficulties if very important phases of produc-

tion would in one country be owned by the government or completely controlled by it. It is not necessary, perhaps, to mention such extreme cases. Yet it should be made clear that the economic planning—the expanding governmental interventionism, ranging from mere issuance of some general directives to the direct or indirect interference with regular business transactions—would make the working of a customs union extremely difficult. It could mean, for instance, a common tariff with the rest of the world and planned and regulated trade among the member states. The fact of such union would of itself not bring about the expected leveling tendency in the member countries' economies and would not be powerful enough to create the needed price equilibrium among them.

As necessary requisites for a customs union, a co-ordinated monetary and credit policy and a unified indirect tax plan are usually indicated. But in an interventionalist economy, with all sorts of direct and indirect interference with business, the need of a uniform, co-ordinated policy should not be limited to the above mentioned fields but should embrace all the chief branches of economic policy. Thus the conception of the policy is transformed from a customs to an economic union. Therefore, the more comprehensive the government's planning or interference, the more difficult will probably be the achievement of such desired uniformity. This difficulty will arise unless the general social and economic conditions together with the political structure will result in the pursuance of a similar policy by the member states. It may sound somewhat like a paradox to state that the formation of such a union would be easier in a liberal than in an interventionist economy. And as a corollary, it follows that a greater homogeneity of the economies of the member states is required for the formation of an economic union than for the formation of a customs union.

V

Let us now examine the question of what the probable position of the countries in Central and Eastern Europe will be in this respect. Leaving aside all political, racial, cultural, and historical differences—which are by no means unimportant—the plain fact remains that this part of Europe is far from being homogeneous either socially or economically. Czechoslovakia, Austria, and related small sections of some other countries have achieved an economic development comparable with that of Western Europe. Out of the total population gainfully employed, agriculture accounted for 32 per cent in Austria and over 34.2 per cent in Czechoslovakia. In contrast, we find 53 per cent in agriculture in Hungary and 75-80 per cent in other countries in this area. But there are other substantial differences in the economic and

social structure of these countries. We find highly developed and diversified industries accustomed to competition in the world markets, especially in Czechoslovakia and also in Austria. On the other hand, many industrial enterprises which were established during the last decade in the agricultural countries were made possible only by the policy of high protection. In agriculture, there is a very intensive production in Czechoslovakia and parts of Austria, Poland, and Hungary; and again, a very extensive agriculture, not at all compatible with the use of modern equipment, in many parts of the Balkans and also in Poland, the yield per acre being often less than half of that attained in Czechoslovakia. And we could continue our illustration with further differences in banking, trade, transportation, and other important economic factors.

However, few will disagree that there is a very great necessity for close economic as well as political co-operation between those nations. It would be an easier task to conclude a political alliance or federation—some important changes in various countries being assumed—than to determine and put into effective practice a common and co-ordinated economic program. A partial solution to this difficulty may be obtained by examining that problem which will be confronted in common by the greater part of this region. There is general agreement that the part which may be called a "backward" or "retarded" region—and these terms apply to a large part of the total area—should be economically developed according to a constructive program worked out perhaps in co-operation with some future international agencies. Within this plan, a program of industrialization, important for agricultural countries with relative overpopulation, will attain its proper place. I wonder how it would be possible, for instance, to explain to these countries that they have to build up new industry without any protection within an economic union in which old and developed industries of similar kinds already exist. It certainly would not be easy to show them an example of a similar development.

The problem of relative overpopulation in agriculture will remain as an urgent one in the greater part of this area and can hardly be solved by a greater intensity of agricultural production. And furthermore, there will be the problem of finding suitable markets for agricultural exports. It would be wrong to assume that the formation of one economic union could solve these problems by itself. It was, for example, suggested that complete freedom of immigration should be introduced for the citizens of the member states of such a federation. Even prior to war it would have been very difficult to carry out such a plan. To start this type of policy in the unsettled conditions after the war seems to me to be hardly practicable. And it should be pointed out that the area as a whole could by no means provide an outlet for the surplus

of population from countries from which about one-half million persons emigrated overseas yearly before 1914.

These countries are of course not complementary economically, not even in the case of a full economic union. While Czechoslovakia and Austria could sell substantial parts of their industrial commodities within this area, they could absorb only a minor fraction of the total agricultural surplus of the exporting countries. The total quantity of this export would depend upon the other European countries, which, as already mentioned, could provide the large natural market. At any rate, the extent of the complementary nature of their economy would not make a persuasive argument for their integration into one unit.

VI

It would not be correct to assume that Germany's New Order has substantially changed the economic structure of these countries during the war, although the German program intended to do so in order to make them a unit more complementary to the requirements of the greater German Empire. With inflation steadily growing, especially in the agricultural parts, there is no basis for assuming any leveling of costs of production, prices, production techniques, and so forth. It is very difficult indeed to guess what the economic and social situation and regime at the end of the war will be.

The period of rehabilitation and relief, during which all occupied countries will rely to a great extent upon help from the outside and during which there will be no problem of finding foreign markets for their exports, could very well be used to outline a basic program for initiating and supporting a policy of economic unification in these parts of Europe. This, of course, would be possible only if there already existed a definite economic program set forth by the United Nations and if the various economic proposals of the United Nations would be put into practice.

The postwar situation will not be greatly burdened by the various factors which created an obstacle to real economic rapprochement. In many respects there will be a completely new start. It would be desirable to avoid the renewal of various vested interests as well as the creation of new interests, and the revival of the influence of different pressure groups. If a strong and co-ordinated economic policy of the United Nations comes into existence, based particularly upon an agreement among the leading powers, it is quite possible and probable that the liberated nations who went through terrible suffering and Nazi domination will openly and firmly voice their approval and desire to enter into some kind of federation refuting the previous economic nationalisms. It is not easy to say whether and where the influence of the Western

World economic program and regime or that of the Russian system will be stronger; neither can we predict what kind of a new program might develop. It remains to be seen whether the process of integration and unification will have a chance to advance far enough so as to make it advisable to form a very large economic union. For we must not overlook incongruities which might contribute to the degeneration of an outwardly strong political entity.

As already pointed out, growing governmental interference with the national economy, as well as kinds of economic planning which might be expected, will increase the role and the field of activity of the central or federal government. The current trend in the United States of America is a good illustration of this problem and difficulties involved therein. How much greater would such administrative difficulties be in a union embracing all the countries between the Baltic and Black Seas! It is impossible to imagine all the internal friction, red tape, and complicated administration that would ensue. And we must acknowledge the fact that before the war, in many of these countries, there existed an increasing demand for a general control of the economy by the government, sometimes suggesting over-all public regulation of it. No system of decentralized administration, or of numerous checks and balances, could make such an economic union work smoothly and efficiently under an assumed policy of interventionism.

Therefore, to have initially an efficient organization working in the direction of a greater economic integration in this part of Europe, it might be more effective to start building the house from the bottom instead of from the top. In other words, let us not dwell too strongly on the concept of one large economic unit, but accept the necessity at first of several economic unions of similar structure which might be supported by political as well as economic agreements among themselves. Such smaller unions could much more easily meet the prerequisites of the common program and attain a certain degree of homogeneity.

There are within this area two blocs with a somewhat similar structure. The one includes territories with extensive farming organization—in particular peasant farming—with relative overpopulation and a need for industrialization. It is in the major parts of Rumania, Yugoslavia, Poland, Bulgaria, Greece, and also, to a large extent, Hungary, where an urgently needed land reform will change the present situation. The other represents the more developed region and includes Czechoslovakia, Austria, the industrial parts of Poland, and parts of Hungary. It is of course extremely difficult to draw an exact geographical division. It has been suggested that the two existing agreements between the governments in exile—the Yugoslav-Greek and the Czechoslovak-Polish agreements—might serve as a nucleus for larger unions. Both have con-

cluded intentions of establishing an economic federation with a customs union, with co-ordinated monetary, fiscal, and social policy. Also, both anticipate that other countries will join them in the future, as soon as the political situation crystallizes sufficiently. At present those other countries are fighting on the side of the Axis.

We cannot elaborate here a blueprint for such unions, indicating which nations might belong to each of them. The final answer will be given by the nations themselves, and certainly will be greatly influenced by the postwar conditions in general. But the final peace treaties should be very definite in this respect from the very beginning.

There is, further, a very important problem; that is, the preferential regime. Should it become clear that there exist great difficulties for an immediate formation of larger economic unions, would it not be advisable to organize another form of closer economic co-operation, perhaps as a time-limited and clearly defined preferential regime,[1] in particular between countries who will be closely knit in political co-operation? It is evident that such a regime should be admitted only if it would be oriented towards a freer trade, in any case not increasing trade barriers in the relations with nonmember states. There are, no doubt, serious objections to such action, since in it may be seen a position in opposition to the most-favored-nation clause and perpetuation of various means of protection. On the other hand, might it not be desirable that we should learn a lesson from the postwar experience with the preferential regime in this part of Europe? Had the major powers been less strongly opposed to such a regime in the Danubian countries, and had they encouraged and advised its introduction, once established it might have been in the course of time transformed into a closer form of economic rapprochement. Therefore, such a system should be utilized for the transitional period, because the formation of a real economic union in the present stage of the economic structure is much more difficult than was the creation of a customs union in a liberal economy.

It would be very useful to specify inclusion of an organization of this type in the peace treaties. This assumes that there will be at the same time an international organization which will have as its task the preparation of a plan to prevent a return to an exaggerated protectionism of all countries. There should be clearly specified a provision for a gradual liquidation of the preferential system, either transforming it into an economic union or abandoning it completely. A gradual liquidation within a stated period, carried out in co-operation with the

[1] There seems to be no substantial difference as to their factual importance between this kind of a regime and a customs union which would leave internal custom duties and perhaps also quantitative trade regulation between its member countries though having a common tariff for trade with the rest of the world.

future international organizations, should make the creation of new vested interests impossible.

The problem of economic regionalisms and economic union in Western Europe is easier to deal with, due to the much greater economic, social, and cultural homogeneity and higher degree of economic development in general. There should be no fundamental difficulties in the way of formation of such a union among the Scandinavian or among the Low Countries.

This question in Central and Eastern Europe is extremely important, both for political as well as economic reasons. Though regarded as urgent and in the interest of all participating nations, the formation of regional groups could not by itself work successfully in solving those very difficult problems. The problem of this part of Europe represents only a part—perhaps a vitally important one—of the European economic problem, and is connected with the development of the world economy. Any such formations can be successful and efficient only if interrelated with such fundamental issues as a new economic policy oriented towards an expansion of world trade, accompanied by a program for the development of the backward countries. Further, a new equilibrium of the European economy is desirable in order to establish a greater integration, especially in the field of agriculture, thus forming a better basis for economic co-operation between the developed and undeveloped parts of Europe and increasing exchange of goods within Europe and improving generally the level of living.

POSTWAR TRADE RELATIONS IN THE FAR EAST

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I

I have been asked to discuss the prospects and problems of international trade in the Far East after the war. This assumes, I take it, a victory of the United Nations over Japan and her Axis allies. What influences will shape the future flow of trade in this great area of the world? What are some of the issues which we shall have to face in this connection?

It need hardly be said that these questions are not easy to answer. Even if we assume a successful outcome for the war, this leaves uncertain both the duration and character of the bitter fight still to be waged —also the economic and political conditions under which the war will end.

Meanwhile, we are in the dark even as to what is happening today to the economic life of the area. The entire Far East, excepting the Soviet Far East, Free China, a part of Burma and New Guinea, is blanketed under enemy control. Far less information escapes through the blockade and censorship surrounding the Japanese-controlled Far East than leaks out of Nazi Europe by one means or another.

Moreover, in projecting the economic future of the Far East, we are up against political imponderables that are difficult for a Westerner to evaluate. These include not only what will follow on such prospective changes as the stripping of Japan of her colonies but also the ways in which the Chinese, the Indians, the Filipinos, and perhaps other peoples will choose to exercise their newly-won independence from foreign political controls. It is certain that the peoples of Asia will have a good deal more to say about the conduct of their affairs in the future than they have had in the past. And they may not choose to run them as we would choose to run them.

In reviewing the Far East, we should further bear in mind that the problems of this area are regional only in a limited sense. They are linked with the general problems of world security and economic stability. For example, in a peaceful world the industrial nations of the West may again decide to resume their dependence on the rubber and tin of Tropical Asia. In an expanding world economy China may secure the foreign capital goods which she will require, and Japan the overseas markets which will be essential to her postwar recovery. The spirit and character of the initial measures of rehabilitation taken by the United Nations after the war, and the larger framework of reconstruction into

which they develop will tend to set the mold within which will develop the future economic relations of the Far East.

II

The best way to approach this future is to look briefly at the recent past. The next decade in Asia will surely bring revolutionary changes—more, perhaps, than any other area of the world. But the basic facts of population and resources will not be very different from those which have influenced the development of recent prewar years.

Eastern Asia is no exception to the rule that the natural resources of the world are very unevenly distributed in relation to the world's population. Indeed, it is a striking illustration. Here are to be found one billion people—one-half the population of the globe—living in 15 per cent of its total area. (I am excluding the Soviet Far East from consideration, because it is the frontier of another large continental system, wholly different in its cultural setting, economic development, and political orientation.) A humid climate and a fertile soil are the great though not the only natural endowment of this region. They support the bulk of its huge population—at least 75 per cent—in a simple, peasant existence at the very margin of subsistence.

The countries of Eastern Asia, including India and Ceylon, accounted in 1935 for about one-eighth of world imports and one-seventh of world exports. Imports and exports each totaled about 2.5 billion dollars. Roughly 40 per cent of this was intra-Far Eastern trade; the rest was predominantly with the United States, the United Kingdom, and Europe.[1] The foreign trade of each country was highly multilateral in character, excepting that of French Indo-China and the Philippines, whose trade was largely with France and the United States respectively.

The disparity between the place of Asia in world trade and its share of world population is explained primarily by the fact that the area includes China and India—subcontinents in themselves—with a vast population leading a traditional agricultural life still largely untouched by machinery and modern science. Europe, by contrast, with only one-fifth of the world's population, in prewar years accounted for over one-half the world's trade.

To take the Far East as a whole, therefore, is to lump together quite diverse economies and trading relationships. In terms of international trade there have been two striking developments—two extremes of specialization—which have emerged in the past half century. One is the expansion of agricultural production for export in the colonial

[1] These estimates are derived from the valuable summary and analysis of prewar world trade contained in a recent publication of the League of Nations' Economic Intelligence Service, *The Network of World Trade* (Geneva, 1942).

areas of Southeast Asia. This was very largely the creation of Western capital and management, and in fact, many of the export staples of this area—rubber, palm oil, coffee, tobacco, quinine—were originally introduced from Africa and Latin America. The other development—a later and more indigenous one—is the rise of Japan as an industrial power, as an increasingly strong competitor in prewar industrial markets, and a heavy purchaser of the world's raw materials.

The chief economic significance of the Far East to date for the rest of the world has unquestionably been its importance as a source of tropical foodstuffs and raw materials. Eastern and Southern Asia before the war alone supplied 90 per cent or more of the world's exports of rubber, jute, silk, tea, and rice; over half of the tin and the chief oilseeds and vegetable oils; and at least a quarter of the sugar, cotton, manganese, and pig iron which entered into world trade.[2] To these might be added a long list of other commodities like hemp, spices, tungsten, antimony, bristles, etc.

Tropical Asia—i.e., Southeast Asia, India, and Ceylon—was more important as a supplier of export staples to the rest of the world than tropical Africa and Latin America put together. And, incidentally, the export surplus of Southeast Asia played an important role in the world network of payment balances. The region met its heavy net obligations in Europe and the United Kingdom on account of imports and investment earnings to a large extent by rubber and tin shipments to the United States, which in turn financed American exports across the Atlantic. If technological changes prevent the revival of this tropical trade after the war, therefore, this in turn will affect other elements in the world's multilateral clearing system.

These leading raw material exports, the minerals excepted, reflected not only Asia's favorable resources of climate and soil but also its limitless labor supply. The same abundance of cheap (though hitherto rather inefficient) manpower has also conditioned its industrial development. Those industries which developed first and most successfully (except for processing industries like oil refining) were invariably those of relatively simple techniques which can advantageously employ large quantities of cheap labor. Japan is the notable case, of course. Her foreign trade boom of the early thirties, followed by her growing armament program, forced the development of industry to the point where it came to be the dominant source of national income.

Japan's spectacular development, however, should not lead us to overlook the significant beginnings of industrialization in almost every country of Eastern Asia—in India, in China, and even in the colonies of Southeast Asia.

[2] *Ibid.*, pp. 32, 34.

One major category of industries, long established, is the processing of export staples: tin smelting, oil refining, rubber processing, rice mills, sugar centrals, lumber mills, etc. In addition, scattered throughout the Far East are a great variety of industries for the production of miscellaneous consumer goods—textiles and clothing, flour, cigarets, paper, dyes, matches, pottery, beverages, furniture, canned goods, rubber shoes, electric gadgets, cosmetics, and a hundred other articles. Factory development in such lines, especially clothing and food, is usually an outgrowth of traditional handicrafts carried on in shops and in the home; it is small-scale in organization; it relies largely on domestic materials, domestic capital, and domestic markets.

As an instance of the extent of this development we may note the case of the Netherlands Indies. Here the government energetically promoted indigenous, small-scale industry in the thirties to compensate for the decline in agricultural incomes. From 1935 to 1941, exports of manufactures from Java to the Outer Islands tripled; in the latter year 3,400,000 people out of a total gainfully employed population of 22,000,000 were engaged in industry.[3] A similar development was taking place in the Philippines and, to a lesser extent, in Indo-China and Thailand before the outbreak of war. This development in the prewar decade is expressive of rising economic ambitions and pressures in this area which will assert themselves increasingly in years to come.

III

The urgency of well-planned programs to diversify and develop the economic life of the Far East after the war needs no argument. Throughout this area one confronts the overwhelming fact of poverty—more abject and more widespread than anywhere else in the world. Of all the billion people of Asia it is only a tiny fraction whose standard of life provides what we would regard as a minimum of nutrition, medical care, housing or education.

The war, of course, will only deepen this poverty. The Japanese standard of living, perhaps the highest in the Orient, has been declining at least since 1938 as a result of war and preparations for war. From such evidences as have become known and can be pieced together it has continued to fall. Except possibly for food—that is, rice—the newly conquered areas of Southeast Asia have thus far contributed little to increase Japan's shrinking supply of civilian goods.

In the occupied areas generally, Japan has repeated with some variations the pattern of confiscation, currency inflation, and conversion of available industrial resources to her own war purposes, which was ap-

[3] Peter H. W. Sitsen, *The Industrial Development of the Netherlands Indies* (Institute of Pacific Relations, mimeographed, 1942), p. 5.

plied in North China after 1937. The colonial economies of Southeast Asia were built on world trade. Japan has not the demand within her empire, nor the shipping, to replace the world demand for rubber, tin, sugar, vegetable oils, and the like. Nor, if she did, could she spare the consumer goods and industrial supplies with which to pay for these raw materials. People will not continue for long to work for money which even if it outwardly resembles that to which they have been accustomed proves to have no buying power. In the Western Pacific as in large areas of China, the people have probably had to revert largely to a self-sufficient existence, feeding and clothing themselves as best they can on their local resources and with their local skills.

Free China already presents an acute problem of relief, owing to the strain of five years of war, the loss of many of her best developed provinces, and now the closing off of even the trickle of supplies from abroad upon which her civilian and war economy were vitally dependent. There is headlong inflation, and today in certain areas serious famine. Adequate relief from outside sources waits upon the reopening of a supply line through Burma. But it is clear that China and the United Nations face a serious problem of relief and rehabilitation here even *before* the victory against Japan. In fact, bold action to deal with this problem may be one of the conditions of that victory.

The further one goes into the problem of rehabilitation, following the initial stages of shipments of food and medical relief, the more it merges with the whole task of long-term economic reconstruction. And in the Far East especially this larger task means not simply repairing the ravages of war. It is not a transitory problem. It is the problem of modernizing and developing the whole economy of the region so as to provide expanding opportunities for its people to find a decent livelihood.

For example, the colonies of Southeast Asia will probably want to regain their former world market for rubber, tin, sugar, vegetable oils, and other staples, so far as that proves possible. But the current development of synthetics and new sources of supply is likely to set limits to any such recovery. It will, therefore, increase the need for developing energetically many new opportunities which are latent in the rich resources of this area. China will face the staggering task of rebuilding her whole national economy, unifying the country with a new transport system, and modernizing her tradition-bound agriculture. She will be under the necessity of creating a new industrial sector to absorb the surplus labor of the countryside, which will press increasingly for employment as modern science lowers the death rate and fosters the rationalization of agriculture. A defeated and disarmed Japan will confront the peculiarly difficult problem of demobilizing her war

economy, now distorted by years of sustained military effort. She may have to undertake this in a situation in which her industrial cities have been laid waste by bombing, her silk market is gone for good, and her colonies and her industrial investment in Manchuria and elsewhere are likewise lost to her.

IV

In responding to these postwar needs, the governments of Eastern Asia will be compelled to embark on much more aggressive programs of construction and development than in the past. There will be a popular demand for vigorous action. It will press for new avenues of employment, for relief from economic insecurity, and for a greater degree of national independence in economic affairs.

Heretofore throughout much of the Far East—and not only in the dependencies of foreign powers—the controls have been external in considerable degree. Now China will be master in her own house, the menace of Japan removed and the whole system of foreign privileges liquidated. India, too, will presumably have her freedom; there is reason to believe that Burma will soon follow. The promise of Philippine independence has been renewed, and the Indies are assured at least a large measure of autonomy in the new Netherlands Commonwealth. Even in colonial areas where certain Western powers seem likely to regain full control, except to the extent to which they too must admit native groups to participation in government, they will be compelled to respond to the economic and social needs of the subject population in far greater degree than before.

If with this general advance toward self-determination there is assured an era of political stability and military security in the Far East, one may anticipate a significant release of national energies. So far as policy does give expression to popular demands, it will be directed in the economic field at (1) the widening of employment and individual opportunity and (2) the strengthening of national independence and security.

The revival and expansion of international trade will have to be a basic element in any Far Eastern program of economic betterment. No country in this area can find the solution for its problems of poverty within its own boundaries. Nevertheless, there is every reason to suppose that economic policies in the Far East will be more discriminating than in the past, and more genuinely protectionist in character.

For example, China (and India as well) will almost certainly seek as one of the major objectives in her reconstruction program the creation of a minimum heavy industry for purposes of defense. The force of this movement will depend on how much China will feel she can rely on future international security arrangements in the Pacific. But re-

sponsible Chinese opinion now seems determined not to allow considerations of cost to induce her to remain any longer altogether dependent on foreign supplies of such strategic equipment. One experience of a Burma Road is enough. Other urgent needs as well—transportation and power, for example—will require some development of heavy industries. China will also doubtless want to protect a number of struggling infant industries whose further expansion will be essential to absorb the labor which will be released from agriculture by better organization, the use of better tools, and a reduction of the excessive fragmentation of farms. She may find herself compelled in addition to restrict imports of consumer goods rather generally in order to conserve foreign exchange to pay for capital goods from abroad.

Similarly, the countries of Southeast Asia are likely to be concerned to diversify their economies in the interest of a more stable balance and wider economic opportunity. As already noted, any failure on the part of the old export crops to recover their prewar position in world markets will add to the pressure to discover alternative employments. Until the hardships of the depression compelled action, there was a conspicuous failure to do this—partly because of the profitability of rubber, tin, etc., and the political influence of the capitalists concerned in the production of such materials, partly because of a tradition of laissez faire and government economy, and in French Indo-China, at least, because of a deliberate policy on the part of the colonial government to maintain the full advantage of the colonial people's dependence on the mother country for industrial products. Experiments in the thirties—particularly successful in the Netherlands Indies—showed that a wide variety of resources are at hand on which indigenous, small-scale industries can be built to the great benefit of the people.

V

If this type of development gathers headway in the Far East, it will react variously on the currents of international trade. What the net effect may be no one can say. Many specific measures of trade policy will probably be restrictive to begin with. Their ultimate effect on trade, however, will depend on whether the programs they were designed to support serve in the end to raise the level of living and put new purchasing power in the hands of the consumers. Hitherto the poverty of the Orient has been a far greater drag on the development of foreign trade than were its tariffs.

Probably a decided increase will occur in intraregional trade—in the exchange of goods among the countries of the Far East. In certain instances political ties may favor this. But it is less likely to develop out

of political factors than as a response to growing economic differentiation and the expansion of purchasing power.

Heretofore, except for Japan's extensive trade with her colonies and neighbors, intraregional trade has played only a comparatively minor role in the international trade of the area. The traditional economies of the Far East were too similar in character. The only conspicuous instance (apart from transit shipments through Singapore and Hongkong) was the rice trade from the surplus to the deficit areas of Southern Asia.

If different areas become more specialized in the future this will pave the way for greater exchange. Historically, for example, as British Malaya developed its rubber and tin with Indian and Chinese labor it came to depend heavily on rice imports from its neighbors. The Netherlands Indies cannot readily grow cotton (or wool) for its expanding textile industry. Any large-scale iron and steel industry built on the coal deposits of Northeast Asia will presumably have to draw heavily on the iron ore of Southeast Asia. Indo-China is rich in minerals which may furnish the basis for a manufacturing industry there and also supplement China's resources to the north. China will also require oil, rubber, and other products from the south as she moves ahead in industrialization and transport. Japan will need to continue purchasing the industrial raw materials of the whole area. And, if her trade and capital cease to be instruments of aggression, she can presumably play a major role in the industrialization of this region, not by controlling industrial development as she did in Manchuria, but by supplying industrial equipment.

All this suggests the likelihood—indeed, the necessity—of greater intraregional trade as the condition and the consequence of regional development. Whether such trade will necessarily grow at the expense of trade with other areas, or even register a relative gain, is another matter. The chief factors favoring such regionalism are, first, cheaper transport costs on short hauls, and, second, the fact that the products of Far Eastern industries, especially consumer goods, are likely to be cheaper and better adapted to the tastes and habits of Oriental consumers. On both scores Japanese manufacturers have hitherto enjoyed an advantage over their Western competitors.

But it would be easy to make too much of the prospects for Far Eastern regionalism provided there is a reasonable degree of world security. The basic similarity of the traditional economies of these countries will remain for a long time. And what industrialization they undergo will tend to follow many parallel lines. Protectionism may be applied by many of these countries most firmly against their neighbors. It might be recalled, for example, how Java lost its sugar market in

India, and, more important, how this whole area applied restrictions on Japanese textiles, partly to preserve markets for British, American and European interests, but also to protect domestic industries. China and the other countries of the Far East will certainly be reluctant in future years to leave their own consumer-goods markets to Japan wherever their own capital and their even cheaper labor can produce goods to replace them.

VI

In any case, the vast unsatisfied needs of Eastern Asia cannot possibly be met within that region. Nor, except for the Japanese military, is there any political group in the Far East today especially interested in the goal of economic regionalism. If there is to be real progress towards freedom from want it must be achieved within the framework of world trade.

For one thing, both Japan and Southeast Asia will have a large stake in reviving world markets for their former exports. For another, there are a number of industrial raw materials, especially minerals, which are lacking in quantity in the Far East, or are poorly situated in relation to each other. There are also certain consumer goods—for example, protective foods such as dairy products, and durable goods like automobiles—which the Far East will come to require increasingly as incomes rise, and which cannot so advantageously be produced in this area. Even in industrial raw materials and consumer goods, therefore, regional trade can have secondary effects expanding trade with other regions—witness Japan's heavy purchases from the United States in prewar years as her exports to Asia increased.

Most important, the Far Eastern countries will be greatly in need of the capital and many kinds of industrial equipment which only the West can provide. This seems inescapable, even with the growth of self-reliance and economic planning and the critical attitude which now prevails as regards much of the foreign borrowing of the past. They will therefore have a special stake in relations with the industrial countries least damaged in their producing power by the war, especially the United States. The most significant type of future trade in the Pacific, whether large or small quantitatively, will be that which is related to the flow of investment into the undeveloped areas of the East, and the migration of industrial technique which will accompany it.

Any large-scale movement of reconstruction capital to the Far East will require new forms and procedures, in which intergovernmental lending will presumably play a major role. For much of the most productive investment—productive in the sense of the widest social dividends—will be of such a character that it cannot be undertaken by

private capital. The return will be slow, and probably the control will tend to be vested in governments. This does not mean, of course, that private business investment, hitherto predominant in Asia, may not again play an important role. But if it does, in China and India at least it will have to be on terms that not only provide sufficient security for the investor but also assure the borrowing country that foreign ownership will not infringe on the borrower's independence, or fail to contribute to the training of responsible native leadership for an expanding role in economic affairs.

To achieve significant results, the sums of capital involved need not be tremendous. Much can be accomplished with relatively small amounts provided such investment is properly directed at key points and is utilized in such a way as to develop the means of repayment. In transportation and industrial construction in China, for example, there will be technical bottlenecks which can be broken successfully only with the equipment and technical aid of the most advanced industrial nations. To repeat, the effect of this type of borrowing on the future flow of trade is not to be judged merely by the dollar value of the initial movement of capital goods which it finances.

The problem in its widest terms is one of leveling up the traditional living standards of the Orient by the introduction of power machinery and modern forms of management. It means a move—probably a modest one at best—towards closing the gap between the living standards of East and West. The task is of a magnitude that precludes short-term planning, and will not be accomplished in a generation. It is only conceivable in an expanding world economy. But if wisely conceived and boldly executed it might itself do much to make that expansion possible. In a progressive world environment, moreover, many issues will be minimized which otherwise will present the danger of serious friction; for example, the pressure of new industrial competition from low-wage industries in the East on the wage levels of the established industries in the West.

If a reconstruction movement of this type is to develop in Eastern Asia, the participation of the United States will be essential, preferably through whatever international agencies may emerge after the war for this purpose. This country more than any other is likely to be in a position to make available the capital and some of the techniques which will be required. And this country more than any other is in a position to influence the course of trade decisively in the Pacific by the level of its own internal activity. The stabilization of our own economy on a high level, coupled with a reasonable tariff policy, would react with special force in Asia. For it would create a heavy demand for industrial raw

materials and specialty consumer goods which are likely for some time to be the chief exports of the Far East.

If the humanitarian war aims to which the United Nations have pledged themselves are to be implemented with concrete economic programs, we can hardly escape the challenge of poverty in the Pacific half of the world. In the past we have traded and invested rather indiscriminately here, with little thought to the long-term political, economic, and social consequences. Who does not regret today, for example, that the American resources which went into building up our enemy, Japan, were not used instead to strengthen our obvious ally, China? In the postwar world we might see whether larger dividends, both economic and political, would not flow from a more farsighted program to further security and general economic advance in all the countries of the Pacific.

POSTWAR ECONOMIC POLICY: SOME TRADITIONAL LIBERAL PROPOSALS

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The role of government in our national economy of the future may be usefully discussed only as one aspect of a total postwar program. Domestic economic policies may no longer be regarded, in the United States, as essentially national or parochial problems. To win the peace, our nation must accept responsibilities of world leadership and must make itself an integral part of a larger political and economic system. Domestic policies must be informed and disciplined throughout by the necessities of world order.

For the world, as for great nations, the possible forms of stable political organization are of two extreme types. There is, on the one hand, extreme centralization or imposed collectivism, based on overwhelming, concentrated power and guided always by the severe requirements of preserving an artificial and precarious power concentration. That such a system has great potentialities for doing good, is obvious. That it has vast potentialities for evil and for degradation of both planners and plannees, the most romantic reformers will now concede. This kind of system Hitler hoped to impose by sheer military force. If we want such a system, or accept it as inevitable, it is hard to see why we are at war. The Germans are eminently qualified to run this kind of world; once established, under whatever auspices, it would find Nazis to do the job or soon collapse. Neither we nor the English nor any combination of the democracies could seriously undertake the task or succeed at it if we tried. Condemning ruthlessness and rule by force, we must also reject schemes of organization, national and international, in which such evils are inevitable and indispensable.

At the other extreme is a scheme in which political organization becomes looser and more flexible continuously and governmental functions narrower or more negative, as one moves through the political hierarchy from local bodies to states or provinces, to nations, and to supranational agencies or world state. In this kind of world, great national and supranational governments, while possessing large reservoirs of power, are narrowly limited in their sphere (or permissible kinds) of action. To put it more paradoxically, centralization of power is utilized primarily, if not exclusively, as a means for maintaining systematic dispersion of power.

The conception and operating characteristics of this system are difficult for the layman to apprehend. Liking and espousing it in a general

way, he may repudiate it in political practice, without awareness of his own defection. Moreover, the argument of its proponents, resting on a simple, practical, common-sense judgment, has little appeal to subtle or sophisticated minds accustomed to the rarer atmosphere of theological speculation. This judgment or premise is simply that no one may be trusted with much power—no person, no faction, no nation, no religious body, no corporation, no labor union, no organized functional group, indeed, no organization of any kind. Political insight reveals that concentration of power is inherently dangerous and degrading; economic insight reveals that it is quite unnecessary. And, in a community which purports to cherish government by discussion, it has become (if only by default) the main function of political economy to assert and patiently to explain these homely, practical truths.

Traditional liberals have long been dismissed as intellectual escapists and political romantics, unwilling to face the realities of political process and historical, institutional trend. However, as we finally face the problem of world order, it is rather collectivist schemes which must meet the charge of being impractical and politically fantastic. On realistic examination, socialism turns out to be, in the larger context of world organization, an all-or-none prescription for peace. The all is what we are now fighting against. The threat of world collectivism will disappear with the defeat of Hitler. The possibility of getting it under other auspices will not exist while our nation remains the leading power. We will not impose such a system on the world; and we will not accept the gross impairment of national sovereignty required for participation in a world state with the power and sphere of action contemplated by supranational socialism. Socialists, like "planners" and isolationists, can and perhaps will frustrate efforts at postwar reconstruction along traditional liberal lines; but they have nothing to offer as their peace program that is even superficially plausible.

The collectivist danger lies rather in the development (and preservation) of great national or regional systems, either collectivist or highly centralized governmentally; i.e., in the organization of the civilized world into a kind of "National League" for bigger and more continuous wars, along lines admirably sketched out by newsworthy specialists in geopolitics. In a world of great nationalisms, whether controlling trade under full collectivism or manipulating it under protectionism, the very distinction between war and peace loses meaning, as during the last decade. Reasonable access to markets is attainable only by political penetration or military alliance. Peace is merely ruthless contest of monopoly states for economic power; and every marked change in relative power must involve either war or coercive adjustment in territory or spheres of influence. World order could emerge only as one nation

(i.e., its authorities) attained to predominant power, subjecting other peoples and making their economics tributary to its own.

If multiple collectivism or large-scale nationalisms promise everything bad, no mongrel system is likely to give us much peace. Peace is the limiting case at both extremes. Rejecting more government and more power concentration as the cure for our ills, we must move far toward the other extreme to find security. However, an extreme application of traditional liberalism, if hard to attain, is not politically impossible. It involves the kind of order in which the democracies can most easily assume their places. It affords the only kind of world system congenial to democracies, and the only kind they can hope continuously to operate and to control. While its establishment does not permit gradualist measures or diffident procedure, it requires initially the close adherence of only a few democratic nations. A democratic, free-trade block comprising the United States, Great Britain and the Dominions, the Low Countries, Norway, and Sweden would represent a magnificent and adequate beginning. Adhering to the rule of equal or nondiscriminatory treatment and inviting the widest national participation, it need not and should not induce other nations to form rival and hostile blocks. Moreover, other nations need only be asked, in return for free access, to maintain equal access and to avoid gross discrimination. Along these lines may be established an economic and political integration of nations which, resting on dispersion of power and responsibility, is indefinitely extensible and capable of enlisting all nations, either as full partners or as increasingly responsible participants.

The essence of this postwar program, in its crucial economic aspect, is free trade among nations. On the political side, incidentally, a major purpose should be that of preserving and protecting small autonomous nations. The Low Countries and Norway and Sweden rather than great national states are the ideal elements or nucleus for world organization. It is our great good fortune that such nations will now demand and attain an important role in postwar reconstruction. In them democratic institutions have their deepest roots and free-trade tradition remains relatively uncorrupted.

The important specific features of a liberal world program are fairly obvious and familiar. Four requirements may be noted as fundamental and minimal:

1. Dismantling of tariff barriers by all the democracies, and elimination of quota restrictions, import preferences or discrimination, export subsidies, and bilateral or barter trading.

2. Organization for co-operative or united action in matters of monetary and fiscal policy.

3. Preparation and execution, by parallel and united national meas-

ures, of effective antimonopoly policies, involving systematic industrial deconcentration, dissolution of giant corporations and cartels, and effective prohibition of private monopolistic restraint of enterprise and trade.

4. Establishment of inclusive, supranational government, limited in its sphere of action but strong within that sphere, and designed specially and primarily (a) to prevent military aggression or resort to force in connection with international disputes and (b) to promote parallel action and to implement united action in the three areas of policy listed above.

American tariff policy is obviously the crucial, immediate factor in postwar planning. Failing prompt leveling of our own tariff barrier, we shall certainly lose the peace. The great world power cannot remain even moderately protectionist without squandering its opportunities and repudiating its international responsibilities. Our tariff structure must be dismantled immediately and as a whole. Dealing one at a time with particular duties or schedules is politically hopeless. Proceeding slowly or gradually, we cannot undermine a deadly pessimism or skepticism abroad as to the possibility of substantial change in our traditional commercial policy.

Even in terms of mere national interest, the case for gradualism will be inordinately weak. The disturbances or dislocations involved in tariff reduction must be slight relative to those of conversion from all-out war production. Our economy must be reorganized drastically in any case. A major part of our industrial resources must be radically reallocated. It will be little more difficult to reorganize for participation in a larger world economy than to reorganize for isolation. There was never, and never again will be, such a chance to adapt ourselves quickly and painlessly to free foreign trade. Squandering this chance, we cannot reasonably expect our allies, in a weaker trading position, to discipline their policies in conformity with the requirements of durable peace. If we go on preaching equality of treatment while ourselves excluding competitive imports, however impartially, we must expect our friends to resume bilateralism and to form rival trading blocks, isolating us if we continue to isolate ourselves.

Given sound commercial policies, monetary problems appear relatively simple. Monetary stabilization, with relatively full employment, surely is attainable, by fiscal and budgetary devices, in (and only in) a free-exchange system. International monetary co-operation faces no great barriers in diverse nationalistic interests or in the special interests of intranational minorities.

The broad policy objective would be the greatest stability of exchange rates consistent with reasonable stability of national price levels (or

vice versa). The minimal purpose should be that of extirpating arbitrary exchange controls and avoiding sharp relative depreciation (or appreciation) of particular currencies.

A strong case can be made for nominal return to the gold standard; i.e., for attempting (a) rigid stabilization (with occasional readjustments) of other currencies against the dollar and (b) stabilization of the dollar in terms of a price-index heavily weighted with international goods. One may look forward to an eventually more flexible and less administered system in which the separate currencies of nations or groups of nations are stabilized fiscally in terms of internal price levels and freely traded, without fixed parities, in organized, unmanipulated foreign-exchange markets. Such arrangements, however, perhaps cannot be recommended as a proximate objective, since with them it might be nearly impossible to prevent (or to define) arbitrary, governmental rate manipulation.

That monopoly is a world problem should be evident, even apart from recent exposures of prewar cartel agreements. Abandoning governmental restraint of trade, nations must also break down great private trading organizations, extirpating private collectivism and needless enterprise concentration within their jurisdictions.

Socialists and others will immediately claim that effective competition is attainable, in major industries, only at immense sacrifice of technical, productional economies of size. This is admittedly true of industries already treated as public utilities. These industries afford a proper field for experiments in all-out planning or socialization (although preferably by states and provinces, singly or in groups, rather than by great national governments); but there is no convincing evidence that this area, where enforced competition is impossible or wasteful, is much larger than it has traditionally been recognized to be, or that it tends to grow with advancing technology.

If the supposed economies of monopolistic size are real in some sense of technical potentialities, they are still illusory and misleading for practical policy. The afflictions of bureaucracy and ossification fall no less surely on vast private than upon governmental enterprises. The efficiency of gigantic corporations is usually a vestigial reputation earned during early, rapid growth—a memory of youth rather than an attribute of maturity. Grown large, they become essentially political bodies, run by lawyers, bankers, and specialized politicians, and persisting mainly to preserve the power of control groups and to reward unnaturally an admittedly rare talent for holding together enterprise aggregations which ought to collapse from excessive size.

The only substantial assurance of long-term efficiency lies in persistent external competition. On economic grounds alone, and clearly on

political grounds, we should eschew concentration of power wherever dispersion and competition are attainable without gross, enduring diseconomies. The technicians' grand schemes, however sound technically, are utterly misleading as guides for policy, since progressive technique depends on competition, and gigantic undertakings must be humanly and politically organized and controlled. The absolutist enterprise must be repudiated, even by socialists, along with the absolutist state. Both have great potentialities for good; but their realizable potentialities are almost wholly evil.

Deconcentration need involve little or no dismemberment of productional or operating units. But needless combination, horizontal and vertical, must be undone and estopped. There must be narrow enterprise specialization, as to both phases of business and stages in manufacturing process. Selling must largely be divorced from manufacture; and industrial research must largely be dissociated from particular operating firms.

There must be wholesale sacrifice of the merely private economies of size in selling and advertising. While limiting, via size limitation, the opportunities for private exploitation of these socially false economies, the government should also seek, through its own agencies and by fostering appropriate private agencies, to strengthen the competitive merchandising position of moderate-sized firms and thus to facilitate their entry and proliferation. Reasonable access to markets is a proper slogan for domestic as well as for international policy. Markets now barred by the prestige of big names, by national advertising, by vast selling and distributing organizations, and by the uninformed consumer's rational disposition to "play safe," must be opened up by the development of sound mass-consumer standards and by responsible, disinterested certification of the good products of smaller manufacturers. Educating and informing consumers is a worthy and abundantly promising public enterprise, even if it has no indirect benefits; but it is also perhaps the most promising form of antimonopoly policy.

Industrial research obviously presents a special problem in a deconcentration program. One may question the advantage of great size in research organizations, or the desirability of relying heavily on commercial enterprise for fundamental research or basic scientific discoveries. There is, however, no good reason why even commercial research should be tied closely to individual manufacturing firms. Combination of competitive firms for this exclusive purpose and corporate-owned research corporations may well be permitted and encouraged, subject to appropriate regulation, especially as regards patent licensing. A large measure of governmental research service for private industries is also desirable.

These problems merge into the larger problem of patent legislation and its administration—a problem which urgently requires attention but probably cannot be resolved by simplistic devices. However, there can be no question of the need for radical change, especially as regards patent pooling; and it seems inconceivable that sound reform in patent law should leave untouched the organization and financing of industrial research. Just as free trade requires free and equal access to markets, it likewise requires equal and reasonable access, if not wholly free access, to technical knowledge and patentable devices. If we must prevent firms from insulating themselves against competition by use of monopolistic sales organizations and selling practices, we must also prevent their appropriating vast areas of the market by patent pooling and the intimidation of infringement litigation. Extensive investigation would doubtless reveal that there are now few if any important industries where new firms may enter or smaller firms behave competitively without risks of infringement litigation which only foolhardiness would incur. When the facts about patent pooling and about world cartels are more generally known, the argument for great corporations, in terms of contribution to research and technical progress, should turn against and overwhelm those who have employed it. It would be interesting, incidentally, to know what fraction of commercial research expenditures is made merely to implement discriminating monopoly; i.e., to develop an artificial technical basis for discriminatory, differential pricing of intermediate products as among different final uses.

Supranational government, to establish free trade, may well begin by destroying a pre-existing structure of irresponsible extranational government designed and employed to restrain trade. The role of international cartel-syndicalism in the prewar period is only beginning to be recognized clearly, as is the prospect that, failing wise measures of prevention, the old cartels will re-establish themselves promptly when hostilities cease. Free or reasonable access to materials means, *inter alia,* opportunity to deal with competitive sellers. Removal of tariff barriers and exchange controls will leave us far short of free world trade, especially in chemicals, metals, sulphur, diamonds, electrical equipment, airplane and optical instruments, etc.

The proximate goal should be an antimonopoly policy in this country which will afford a model and bold example for parallel action elsewhere and for a supranational program. The special need for vigorous American leadership arises from the fact that other nations, notably England, have moved even further than this country into industrial concentration and cartelization. Between Tory demands for continued tight monopoly and Labor demands for socialization, the task of reconverting England to free trade may seem Herculean. Even English businessmen are now

perhaps better prepared to turn over their enterprises to government than to contemplate the ordeal of competing again, after all these years, with one another.

Great strides could immediately be made by wise policies on the part of the Alien Property Custodian (and his English counterpart), especially in the handling of patents of enemy aliens and enemy-controlled firms. Much will doubtless be accomplished under recent Supreme Court decisions in opening up patents by antitrust litigation. Reform in patent law and administration should be undertaken here, and on a wide international front. Consumer education and consumer standards, to repeat, are a fertile field for social planning and governmental activity. New antitrust legislation and activities should be directed especially against collusive agreements and practices in restraint of import and export trade, and particularly against agreements dividing foreign (e.g., South American) markets. The Webb-Pomerene Act should be repealed outright and other nations assured of our intention to prosecute domestic corporations quite as relentlessly for practices restraining trade abroad as for restraint of domestic trade.

Monopoly must be dealt with as a Protean phenomenon, by diverse measures within nations and by action on a wide, international front. The best results may possibly be reached by indirection. But the size problem must also be attacked directly. Deprived of all formal, legal devices, monopoly and essentially monopolistic pricing in world markets will persist as long as industries are tightly cartelized intranationally or dominated by gigantic firms. Private monopoly, like governmental foreign trade policy, is a cancerous growth in our democratic society. Merely homeopathic or medicinal treatment will not suffice.

The secure foundations of world order will be laid, if at all, in these three areas of commercial, monetary, and monopoly policy. Some planners would give equal or greater emphasis to foreign investment programs and reduction of immigration barriers. To do so, however, is to promote dangerous schemes and to encourage false hopes.

When hostilities cease, there will be urgent need for large governmental dispensations, especially of food, to areas of famine and devastation. These will be forthcoming and should be regarded as essentially unilateral contributions to peace, like our lend-lease contributions to the war. They should be allocated evenhandedly according to need, without discrimination against enemy populations and without much repayment being demanded or expected. However, we should prepare to distinguish sharply between contributions for relief or immediate reconstruction and foreign capital investments.

For long-term policy, we should face the obvious dangers of politi-

cally directed capital movements—of governmental lending or of private investment governmentally inspired. The freest possible movement of private capital should be sought; equal access should be maintained; but private funds should venture abroad without expectation or hope of extraterritoriality. Where private funds cannot safely go, or will go only with a high risk premium, governmental investment, whether by national or supranational bodies, involves grave political risks. Wholly backward areas, administered and controlled by supranational agencies, are perhaps an exception to this rule. The same may be true, for very different reasons, of China. On the other hand, the greatest caution must be observed with respect to investment in areas like India and South America, where stable, democratic government or tradition does not exist, or where foreign debts and foreign enterprises are symbols of subjugation and national frustration. Grand schemes for dispensing American capital to the world may best be shelved in favor of schemes for exporting useful knowledge and transplanting specialized skills.

As regards immigration policies, the less said the better. It may be hoped that world prosperity, increased political security, and ultimate leveling of birth rates may diminish migration pressures. Wholly free migration, however, is neither attainable politically nor desirable. To insist that a free-trade program is logically or practically incomplete without free migration, is either disingenuous or stupid. Free trade may and should raise living standards everywhere (and more if transportation were costless). Free migration would level standards, perhaps without raising them anywhere (especially if transportation were costless)—not to mention the sociological and political problems of assimilation. Equal treatment in immigration policy, or abandonment of discrimination, should likewise not be held out as purpose or hope. As regards both export of capital and import of populations, our plans and promises must be disciplined by tough-minded realism and practical sense.

The general program sketched above obviously calls for a strong international organization which, besides preventing aggression and international violence, would mainly concern itself with commercial, monetary, and monopoly policy. It is not for economists to discuss the technical constitution or structure of good supranational government. Within such organization, however, special sections or agencies, of coordinate status, should be established to deal with problems in the three areas. (I would dispense with an international bank.) There would, of course, be many other agencies and activities, even in a world state narrowly limited in its sphere of action. Attention may

properly be focused on three areas of policy, however, since they would provide the fundamental policy framework for other activities. Consider briefly some questions of sanctions.

At the outset, the democracies, opening their markets freely to one another, should also open them freely and equally to the rest of the world. Some other nations would doubtless reciprocate fully, and others would move toward closer affiliation with the free-trade block. But we could not and should not impose free trade on all the world. In some areas, large tariff revenues will be indispensable for stable government; in others, tariff autonomy will be cherished and exercised as an attribute of freedom. Offering free access, the democracies should ask equal access to the markets of other nations. These others might also be requested to suspend new tariff measures, pending investigation and report of recommendations by the international agency and pending full reconsideration by the competent local authorities in the light of the recommendations. Sanctions should be available, perhaps in the form of penalty duties, but should be invoked only against flagrant discrimination or gross departure from the equal-treatment rule and only by united action, under mandate from the international authority.

In monetary stabilization, the acute problem case is that of the nation which refuses to order its fiscal practices in the manner necessary to prevent radical exchange depreciation. Here the obvious, and dangerous, countermove or sanction is penalty duties against exchange dumping, imposed uniformly and through the established international machinery. Such a dangerous weapon, however, should be most sparingly used. Diffidence about recommending its use will become Americans especially, since our gold policy was a major contribution to international chaos in the thirties and since our fiscal policies, recent, present, and projected, come uncomfortably close to describing what a sound world program must prevent. The main requirement for stabilization will be not machinery for penalizing nonconformity but development in America of fiscal practices (and a financial structure) which other nations might sensibly accept as norms or bases of co-operation and conformity.

A larger field for sanctions or direct, supranational action may be found in monopoly policy, since action here may be taken against private firms rather than against national states. Even here, however, successful international policy should rely almost wholly on co-operative national action in the competent jurisdiction and upon recommendations from above regarding measures of local policy. World courts should perhaps be available in antitrust cases, if only to resolve, by declaratory judgments, moot questions of jurisdiction. Surely, any remaining limitations or uncertainties as to jurisdiction of our own

courts, under local law, in cases involving monopolistic practices by American corporations in foreign markets, should be removed.

A politically awkward case arises where a national state has a substantial vested interest in private, world monopoly. Familiar instances are nickel and diamonds, and similar instances are numerous. The looser, cartel monopolies, where no nation represents overwhelmingly a producer (as against consumer) interest, should not prove intractable. But would Canada provide the world with nickel at competitive prices; or the United States, sulphur; and would England resolutely disestablish monopoly in diamonds or tin?

One may consider, in this connection, the case for supranational price fixing; i.e., for establishing a special class of international public utilities, with appropriate regulatory agencies. That special agencies and activities of supranational government would be concerned with ordinary public utilities may be taken for granted. Some control over shipping conferences and ocean-freight-rate agreements is desirable, as is international supervision of locally regulated transportation rates and port charges (if only to expose concealed subsidies or discrimination). Direct international regulation of either ordinary utilities or artificial monopolies, however, should be avoided like the plague. Every persuasive effort should be made to secure appropriate local measures, aiming at internal deconcentration and effective competition in export trade; and publicity should be focused on cases where nations have evaded or repudiated their responsibilities on this score. In extreme cases, sanctions might be invoked against either firm or nation, in the form of penalty duties or of supranational subsidies designed to develop substitutes or alternative sources of supply. Direct international regulation or price fixing, on the other hand, seems utterly dangerous, both as interference with internal national affairs and as precedent or opening for extension in the sphere (or kinds) of action of the international authority.

The larger the area of government, the greater are the dangers of its powers being abused on behalf of articulate minorities. To realize the good potentialities of a supranational state, every precaution must be taken, by constitutional limitation and adherence to definite rules of policy, to protect a common, consumer interest in free trade against special, producer interests in restraining trade. Using supranational agencies to hold down particular monopoly prices, we might shortly find that, like corresponding domestic agencies, they were actually serving to hold those prices up. Moreover, if international authority were invoked to lower excessive prices, it almost certainly would also be invoked to raise other prices plausibly alleged to be too low.

One should stress here the dangers of proposed postwar schemes of

agricultural control. Underneath an unfailing preoccupation with political expediency, our often inspiring Vice-President is perhaps an ardent free trader. But his conception of the peace, as an opportunity to create international agricultural syndicates, involves repudiation of an indispensable constitutional principle of supranational government and rejection, on behalf of his functional constituents, of a rule of policy which he and they in turn would apply to other groups. There will be no peace, in America or in the world, until we all give up the business of organizing—geographically, industrially, and occupationally—to take things away from other people. If American farmers, who have so much to gain from all-out economic disarmament, refuse to take the lead, or even to disarm at all, their power may be as inimical to peace as was that of Prussian landowners in the past.

The discussion so far has ignored a major obstacle to free trade; namely, monopolistic labor organizations. Strong unions may be expected to exert their full power against both tariff reduction and industrial deconcentration. Failing in such opposition, they may prevent the wholesale labor reallocation necessary for our prosperous, effective participation in a larger economy. Maintaining excessive relative labor costs and cost expectations in critical areas (i.e., in capital goods production and the other industries with large expansion potentials), they may fasten upon us an acute unemployment problem which, politically, would drive us into beggar-my-neighbor policies, fiscal and commercial.

It is a weakness of the whole scheme of policy here sketched out that it must rely mainly on faith and hope for warding off labor syndicalism and for mitigating trade restraint in what is, on a realistic view of present and future, its most important form. Some of the legislative, administrative, and judicial implementation of large-scale labor organization might helpfully be cut away. In the main, however, direct political action must be confined to attack upon other concentrations of economic power, in the hope that the technical and political basis of labor monopoly will be eaten away as power is otherwise dispersed. On principle, one may concede nothing to the demands of the union partisan that other forms of monopoly be destroyed first, for the different forms are highly complementary, not counterbalancing. Surely no one believes that we can all live peacefully or prosperously on monopoly gains exacted from one another, or as a collection of mutually exploiting syndicates. All functional groups must submit to the peaceful, democratic discipline of intragroup competition or, following intergroup conflict, to the odious and precarious discipline of absolutist, centralized authority. However, for practical politics, enterprise deconcentration must come first. If only industrial leaders could see that

deconcentration involves little or no loss to security holders and that the alternative is control by government and/or by unions, they might wisely accept and support deconcentration.

The central purpose of postwar planning, to repeat, should be that of establishing, among the democracies, a free-trade front, so organized as to promote their prosperity and to facilitate steady recruitment of other nations as increasingly co-operative and responsible participants. In formal political organization, the supranational government should, from the start, be extremely inclusive. Full opportunities should be offered to all nations for consideration of their special problems and for airing of grievances. But there should be no concealment or hypocrisy about the intention of the democracies to maintain a united front and dominant power. There can be no peace without power. It may be dispersed among democratic nations; its exercise will be conditioned, if they remain democratic, by the duty and necessity of exercising it beneficently; and inevitable distrust of great nations may be mitigated by giving to the small democracies a large voice in all major policy decisions. The United Nations, however, must remain the locus of dominant power for an indefinite future.

But will Russia permit establishment and extension of such a world system? Having suffered most from the war—and done most toward winning it—she may seek to secure herself by radical territorial expansion and by sustaining total political dominance of the Continent. There is reason to hope, however, that she will remain essentially nonexpansionist—that she will insist on ruling whole Europe only if we fail to develop a program which will guarantee her security. And recent experience should leave her receptive to the idea of having a noncollectivist Germany next door.

Russia would present real difficulties of detail in the operation of a great free-exchange system in the Western World. Free trade (not to mention exchange control and monopoly policy) has little or no meaning where a collectivism is involved. Russian foreign trade, however, will not be of major importance to herself or to others. She may willingly eschew discriminating monopoly or monopsony and adhere roughly to the rule of equal access and equal treatment. In any case, her interest in access to markets of the democracies would be commensurate with their interest in her trading practices. At worst, but only as a last resort, they could always set up a special corporation to bargain and barter for them collectively with Russia.

The critical area—for Russian policy immediately and for the long-term future of Western democracy—is Germany. She must be disarmed and kept disarmed indefinitely. (One hopes this may be accomplished without extensive use of quota limitations on ordinary industrial

facilities or output.) German government must be radically decentralized. Prussia should perhaps be dismembered into two or more Länder or states, and subjected to thoroughgoing land reform. The Reich should be compelled to abolish all protective tariffs (on foodstuffs especially) and to eschew quota restrictions, export and other subsidies, and arbitrary exchange control. Germany should be compelled to carry through drastic economic disarmament, dismantling her cartels and industrial combines and enforcing systematic industrial deconcentration and decentralization of enterprise control.

Such should be the central terms of the imposed peace. Reparations, save for transfers of existing industrial equipment to now occupied areas, should not loom large among impositions. There should be no dismemberment of the pre-Hitler Reich. Every reasonable effort should be made, in imposing governmental and industrial deconcentration, to facilitate re-establishment of democratic institutions and responsible government at all levels. Impositions should be explained to the German people as means to this end. They should be assured that, observing and executing faithfully the treaty terms, Germany would enjoy reasonable or free access to markets of the democracies and, so far as their good offices permit, equal access to other markets. Fulfillment of imposed treaty terms and secure re-establishment of responsible, democratic government should be recognized from the start as entitling Germany to reassume a prominent place in world government and international affairs.

Democracy is unlikely again to be the vital, advancing, world-integrating ideology unless it is securely re-established in the nation of skilled, educated, and cultured people where, while never securely established, it received its only sharp setback in modern times. To sit on Germany for generations and to prevent her reacquiring power commensurate with her human and material resources, would be a brutal and unrewarding task. As defenders of world order, the democracies will be shorthanded at best. The Czechs may again lead wisely and vigorously in Central Europe. Russia may become a bulwark of democracy and world order. France may establish a more secure and stable democracy than she previously attained. But Germany remains, on a sanguine short-term view, the crucial area for long-term policy.

If one posits sound postwar economic policies in England and America, the long-term outlook becomes very bright. The substantial reasons for pessimism are to be found within the great democracies, not outside. Development in other nations will largely depend on the prevailing world trend; and that trend we could largely determine. But England, tired of inordinate responsibility, lacks now both strength and will. And America, save in gravest crisis, is irresponsible. Both

nations, moreover, are divided internally by angry contests for power. If recent world disorder leaves other nations still amenable to wise leadership, its incidence upon thought and action in the democracies has been such that they perhaps cannot lead.

The ominous prospect is not that America will provide bad leadership but that it will provide none at all. Having assisted tardily in disarming aggressors and indulged in an exulting outburst of generosity, we may promptly retire from the world, leaving it to chaos while we busily create chaos at home. If our interventionists or participationists develop no sound or definite program and attain no fundamental consensus, the isolationists will take over, without a real contest, from the moment that shooting stops. Postponing their planning for peace until the war is won, American proponents of world participation will do their planning after they have politically been put to rout.

Traditional economic liberalism has as its characteristic feature a workable program for peace. As sketched in these pages, it is doubtless full of flaws. (Efforts to forestall attack have led the writer far outside the range of his pretended competence.) Some such program, however, affords the only promising basis for a united domestic front against isolationism, minimizing the concessions that different factions must make on behalf of unity and consensus. It also defines a plan for using our national power to establish a prosperous, durable peace, at home and in the world, and for reducing and dispersing gradually the military power on which peace must initially be rested.

DISCUSSION

MARGARET S. GORDON: Mr. Chalmers and I have worked out a rough division of labor between us. I shall concentrate on the problems raised by Dr. Hilgerdt's and Professor Simons' papers, while Mr. Chalmers will spend the major portion of his time on the question of regionalism.

Few economists will dispute Dr. Hilgerdt's conclusion that we must aim at the restoration of a multilateral world trading system. The real issues arise over the most practical methods of achieving this end. It is to be regretted that Dr. Hilgerdt did not elaborate on the point which he made at the end of his paper, when he expressed his belief that "the restoration of multilateralism on sound principles" would "require international planning on an extensive scale."

A realistic approach to the problem of restoring world trade requires something more than a mere reiteration of nineteenth century principles of foreign trade policy. This, I believe, is the fundamental weakness in Professor Simons' approach to the problem, although I agree with some of the points which he makes in his paper. The obstacles to the removal of tariffs, and even of other types of trade restrictions, are far more serious than Professor Simons seems to assume.

The most serious obstacle and the one that will probably be most difficult to resolve, even under relatively favorable circumstances, is the fact that entire industries or segments of industries are dependent on tariffs or other import barriers for their existence. It is not a question of a few vested interests; in some countries the removal of all import restrictions would mean a complete readjustment of the structure of production.

Wartime conditions, moreover, are stimulating all over the world the development of industries which will demand protection after the war is over. Countries like Argentina and Australia are undergoing rapid industrial development as a result of the unavailability of foreign supplies of many goods. Raw materials are being produced in what would normally constitute marginal or submarginal areas. There is no question that producers will press for special protection to maintain these sectors of high-cost production after the war. In some cases, tariffs or import quotas will be sought; in other cases, subsidies, preferences, or commodity control schemes will be demanded. The international raw commodity control schemes which were inaugurated during the twenties owed their origins, on the whole, to overproduction stimulated during the first World War.

A further important consideration is this: so long as nations are not completely convinced that there will not be another war, they will seek to protect the production within their own borders *or* in areas under their control of commodities the supply of which would be cut off in time of war. This was an important motive for erecting tariff barriers after the last war, and, of course, the struggle for autarchy had much to do with the extreme trade restrictions of the late thirties on the Continent of Europe.

Yet another difficulty and one which cannot be altogether separated from the preceding ones is associated with the world-wide trend toward increasing

governmental control of economic life which characterized the period between the two world wars. There is no question that domestic economic controls and foreign trade controls go hand in hand—either may lead to the other. There is also little doubt that domestic economic controls will not disappear after this war. By this I do not mean that the present wartime controls of trade will necessarily persist but that we are likely, on the whole, to see a greater measure of governmental intervention in the democracies after the war than was to be found in the thirties.

We could go on to enumerate other forces in the postwar world which will probably operate against the removal of trade barriers. Does all this mean that we are faced with a hopeless problem? I should say emphatically not, but it does mean that the challenge presented is a serious one.

What, then, must we do, if we are to approach realistically the problem of restoring multilateral world trade? Professor Simons offers a program of traditional liberalism, to be enforced by a supranational government. I agree emphatically that we must set up a supranational government, and one that will be powerful enough to offer an effective guarantee against war. Without this, we can hope to make little progress in the direction of lower trade barriers. But I cannot agree that the task of the supranational government in the economic sphere must be to enforce a program of traditional liberalism, as Professor Simons envisions it. We cannot reverse the tendencies which have led to an increasing measure of government intervention in economic affairs. The real questions revolve around how much intervention we shall have and what forms it will take.

On the relation of this issue to the problem of foreign trade controls there is, I believe, a good deal of blurred thinking by economists. Professor Simons represents one school which believes we must restore free trade and at the same time restore a maximum degree of freedom in the domestic economy. There is another school of thought which favors national economic planning after the war and argues that such planning may necessarily entail a considerable degree of control over foreign trade. I should like to suggest that we need to distinguish between the types of economic planning which are not necessarily incompatible with a substantial degree of freedom in the sphere of foreign trade and those which tend to be associated with foreign trade controls of a narrowly restrictive sort. In the first category, I would place domestic economic planning of the type which is aimed at creating the general conditions in which production and employment may expand; e.g., public works programs. Planning of this type need not necessarily be associated with foreign trade restrictions, *provided* the problem of currency stabilization is handled by international agreement and provided the programs of individual nations are co-ordinated in such a way that no one country gets very far out of step with other countries. Professor Haberler's very effective argument against the need for exchange control in Great Britain after the war, presented in an earlier session, is pertinent here.

The types of domestic economic planning which are least compatible with a relative degree of freedom in international trade are those which have as their

aim the protection of the position of producers in particular industries. Price-fixing and production restriction schemes are the most obvious examples. Many of the import quotas and export subsidies which were established during the thirties were associated with schemes of this sort. Economists who are interested in a restoration of multilateral world trade will be adopting a more realistic attitude if they cease denouncing government intervention in general and concentrate on those forms of intervention which are most dangerous from the point of view of a relatively free foreign trade program. It should be recognized in this connection, moreover, that economic planning which has undesirable repercussions on the balance of trade if carried out on a strictly national scale need not have these undesirable effects if carried out on an international scale.

Whatever forms government intervention takes, however, there will remain the knotty problem of getting rid of the trade barriers which have been in existence for some time. This task will require a carefully worked out international plan, but, more than this, it will require a program of education. The most brilliant blueprints for reducing trade barriers by this or that multilateral or bilateral program will have little effect if public opinion is not prepared for them. Without denying the accomplishments of the Reciprocal Trade Agreements Program, it must be recognized that the administrators of the program on the whole avoided lowering tariffs where substantially increased competition for domestic industry would result and in a number of cases limited the reductions to fixed quotas in order to forestall protests on the part of domestic producers who would have objected to a straightforward duty reduction. We shall never achieve much progress in the lowering of import barriers as long as this sort of caution is necessary; and it will be necessary as long as public opinion, especially in this country, has no better understanding of tariff issues than it has had in the past. We may have to "put across" a program for lowering trade barriers after the war in much the same way that we have had to "put across" rationing programs during the war.

HENRY CHALMERS: I shall try to deal briefly with Mr. Hilgerdt's and Mr. Lockwood's papers before turning to those of Dr. Simons and Dr. Basch, which I had expected to cover.

All students of international trade in the large owe thanks to Mr. Hilgerdt for his splendid presentation of the case for multilateral trade. For many years, economists and public men of liberal views have urged the importance of not breaking down this beneficial all-around clearing system by which countries offset their uneven trade balances and financial obligations with other individual countries. But they usually took this position on the general grounds of principle, or in the light of the particular part of the "network of world trade" that involved their own countries.

Now, thanks to the great labors of Mr. Hilgerdt and his associates, we have a full documentation and careful analysis of the multilateral trade structure of the world as it had developed during the prewar period, and vivified by the interesting charts. His address, and the fuller study he recently prepared for

the League of Nations, should prove a useful antidote to the trade-constricting bilateralistic proposals that will doubtless be coming forward in the discussions of postwar reconstruction plans during the period ahead.

Mr. Lockwood's discussion of postwar trade relations in the Far East impressed me as an excellent illustration of the importance of the maintenance of multilateral trade. Here is a region of the world which is dependent, to an exceptional degree, upon its foreign trade connections with countries far overseas and upon their interconnections.

It is those far-off countries of Europe and America which have both furnished the markets for the greater part of the products of the Far Eastern countries and supplied the great bulk of their import needs. But the Western country which had been the principal market for the major export products of the Far Eastern areas, namely, the United States, has played but a small part in supplying the import requirements of many of these areas. On the other hand, the United Kingdom and the Netherlands—the outside countries which did supply the bulk of the imports of this region and originally invested the funds that made possible the development of their natural resources—were not the most important consuming markets for the resulting products.

Without multilateral adjustments—the cross-movements of merchandise, funds, and services between all the various countries involved—even such economic development and prosperity as the Eastern peoples had attained would have been stunted at the start, and the Western world would have to do without much of the rubber, tin, and other raw materials upon which its industrial development and standards of living comfort have come to depend. Moreover, the United States could not have built up so large an export market in Great Britain, particularly for its farm and other natural products—to a value regularly exceeding that of the British goods sold in the American market—if we had not also built up that large *import* excess in our dealings with British India and Malaya, payment for which via the London exchange market balanced off what was due us for our excess *export* shipments to the United Kingdom.

The war has also brought out the importance of the multilateral trading system to the Far East, in ironic reverse. The depression and misery which are reported to have developed in most of the countries of Southeastern Asia now under Japanese control seem to be partly due to the fact that Japan just cannot replace the Western countries, from which they are cut off, either as a market or as a supplier.

You will recall the aggressive programs for local industrialization which Mr. Lockwood foresaw coming, after the war, among many countries of the Far East in their effort to level up their living standards toward those of the Western world. However, I was more impressed with the related point he brought out; namely, that countries of the Far East can achieve greater prosperity and move toward the greater satisfaction of the needs of their peoples only within the framework of a broader world trade. It will apparently depend mostly upon whether the great powers of the West succeed in launching a program of expanding world economy, that will increase the volume of call

for the raw materials of the Far East, and so allow a wider sharing in the aggregate benefits of increased world production and exchange. Truly, international trade, like world peace, is indivisible.

As a hiker and a lover of far horizons, I was fascinated by Dr. Simons' bold sketch of the broad postwar economic landscape. I was tempted to tarry and raise questions about how we are to go about trying to ascend to this economic "Shangri-La." I noticed that we would need first to climb up to a plateau, by the establishment of a supranational government, which is to maintain peace and promote parallel action by the respective nations toward the scaling of the three principal peaks of economic policy. You remember they were rather steep, and were called "free trade," "free and stable exchanges," and "antimonopoly." But I was afraid we would be a long time finding the trails. Besides, the broad subject of the wise basis for rebuilding general international economic relations after the war has been discussed at several other meetings in this program, particularly those on trade and on investments. I shall, therefore, take time now only for one point of agreement and two of disagreement.

First, I want to underscore Dr. Simons' closing thought that, if the American proponents of world participation do not develop sound and specific programs for the peace, and attain fundamental consensus upon them, before the war is over, the isolationists will take over without a real contest, from the moment that the shooting stops. The United States may then again fail to give the world the leadership toward a more peaceful, freer, and more widely-shared world prosperity, which we alone can give. At least, without our participation it will not be given.

We need but recall how a similar brave ideal set up in the third of President Wilson's fourteen-point speech of January, 1918, calling for "the removal so far as possible of all economic barriers, and the establishment of an equality of trade conditions among all the nations consenting to the peace," was successively watered down during the Peace Conference to the point of almost complete impotence. It finally appeared in article 23(e) of the Covenant, simply as a weak, equivocal injunction to the nations for "the equitable treatment of commerce." We now know that this was due largely to the failure to work out *beforehand* a concrete, feasible program, and to secure the substantial agreement to it of our major allies. The bright prospects for international cooperation toward a freer, fairer, and expanding world economy, held out in the Atlantic Charter and in the Mutual-Aid Agreements, must not be allowed to suffer the same fate.

Next to having concrete programs in advance, however, it seems important to frame them with a view to what is reasonably practicable and what the mass mind of our peoples and those of our major allies can be persuaded to support, so that the congressional or parliamentary authorizations or approvals that may be necessary can have at least a fighting chance of being obtained. To propose a moderate immediate series of steps, provided they move substantially in the right direction, seems in general a wiser course than to set up the ultimate goal as the immediate project, and so startle the public mind that it might refuse to move in that direction at all. Dr. Simons' proposal for

the prompt and complete abandonment of protective tariffs by the democratic nations illustrates my point. (I am not unaware that there are exceptions to this principle of approaching far goals by moderate steps. In certain parts of the world, such as Eastern Europe, where the normal organization of production and trade has been so radically disrupted, the immediate postwar treatment must also be radical in character.)

I want to register just one other basic objection to his approach. He acknowledges that his program is "an extreme application of traditional liberalism." He would bar any such thing as intergovernmental loans after the war, or the consideration of international agreements for stabilizing the marketing of perishable surplus commodities which is otherwise bound to be in a chaotic state. And there must not even be an international bank!

Does Dr. Simons really believe that a program of extreme laissez faire would be *effective* in bringing about the sort of postwar world he seeks, even if it could be achieved? In a measure, he seems to be even inconsistent with himself, when he insists, for example, upon free and stable international exchanges, without allowing for the international institutions necessary to bring about and maintain that condition. How many economists would agree that the difficult problems of reconstruction, after the terrific disruptions of the war, can be solved by leaving them to the free play of the unrestrained forces of the market and to the aggregate profit-motive of various peoples and interests?

Personally, I cannot escape the conviction that the conditions facing the world after the war will inevitably require very definite governmental control of the process of relaxing the wartime controls and restrictions; a large measure of governmental guidance and support for the necessary economic readjustments in many fields during the transition period; and a very high degree of economic collaboration between the governments for a long time after that, even while the actual conduct of international trading and financial transaction is being increasingly restored to private channels. I will leave this issue as a question, and hope it will receive fuller discussion at the round table.

Out of the fullness of his firsthand knowledge of conditions in that part of the world, Dr. Basch has given us an interesting picture of what he regards as the handicaps and difficulties as well as the advantages in developing larger economic regions in Europe and of the requisites for success in such regional groupings. I believe he has wisely focused his thought upon the problem of economic regionalism in Eastern Europe, where something on that order will obviously be necessary after the war, for both political and economic reasons.

Among the countries of Western and Northern Europe, such arrangements could more easily be achieved, because of their greater economic and social homogeneity, as Dr. Basch has pointed out, although the need for such economic unions is less urgent there than in Eastern Europe. Thus, if the countries of the old "Oslo Group"—Scandinavia, Belgium, and the Netherlands—which had made a beginning toward a regional rapprochement before the war, should then wish to move closer toward a regional federation, they should not find the adjustments too great, and I do not believe the great powers would now interpose serious objection.

Recalling, however, the rather optimistic article which Dr. Basch published last August on rebuilding the Danube Basin, I get the impression from this paper that he is losing confidence in the idea. He seems more impressed now with the difficulties in the way of any such program for a customs union, or, as it might more properly be called, an economic union. He now seems to find himself strongly drawn toward two alternatives. First, he proposes smaller groupings in Eastern Europe. As the exploration of the problem advances, it may indeed appear desirable, on psychological or political grounds, to start with two or even more nuclear groups among the countries in that region, even though that might materially weaken the political as well as the economic benefits to be gained from a single regional federation, embracing the entire middle tier of European countries extending between Germany and the Soviet Union. But one gets the feeling that Dr. Basch's suggestion for smaller groupings of these countries is a form of escape from the whole idea of larger economic federation. His second and main alternative—the one for which he suggests that provision be written into the peace treaty—is a system of temporary regional trade preferences in favor of Eastern Europe. With this proposal, I wish to disagree basically.

To my mind, a regional economic union in Eastern Europe and a system of regional preferences are two quite different things. The economic and political justification for one will not hold for the other; nor are their long-time results likely to be of the same order.

When there is proposed an economic federation for Eastern Europe with no trade barriers between the various constituent areas, while a common tariff and trade control system applies to relations with outside countries, the justification for this special privileged relation within the union rests upon the sad lessons from the experience of the last twenty years. They have demonstrated that countries of Eastern Europe were too small and too weak, particularly in the prevailing state of relations between the major powers, either to safeguard their own political security when standing alone or to provide for their economic prosperity. The economic advantages of a federation of Eastern Europe have been very well stated by Dr. Basch in his paper, and I need not take time to repeat them.

However, that justification would not well apply to a system of regional preferences. If the preferences are temporary and are to pass out entirely after a few years, then you are left with all the evils of the prewar situation. Moreover, since that would be a temporary arrangement, there would be no incentive for taking steps toward more efficient organization of production among the participating areas, which constitutes the principal road to progress under a customs union.

Any expectation that a temporary period of regional preferences would lead to the development of a full customs union between the participating areas, finds practically no justification in the history of such attempts. If the nations involved cannot see their interest in starting to build toward an economic union right after the war, when conditions will be most fluid, because of the destruction and disruption that the war has brought, they are hardly likely to be able to attain that after a period of years has elapsed. By then, all the old

vested interests in the different sections will have had time to re-establish themselves, and new ones to form, and together they would present almost insuperable resistance to the economic integration of the whole region.

Moreover, as all students of the Eastern European situation well recognize, preferential trade relations among those countries alone is not enough. Their export products, particularly grain, need outlets in outside countries, particularly in Central and Western Europe, whose high tariffs and other efforts toward agricultural self-sufficiency after the last war were one of the principal reasons for the long prewar depression of Eastern Europe. To dispose of their products, the preferential system would have to include countries outside of Eastern Europe, particularly Germany, Italy, and France—possibly along the lines contemplated by the Stresa Conference. But anyone who has watched the spider-and-fly game of recent years between Germany and Rumania, for example, cannot forget that what started as a generous preference for Rumanian products made that country so dependent upon the German market that general economic penetration soon followed, and that in turn by the political taking over of Rumania as practically a German province. They would hardly advise that the Eastern European countries deliberately make themselves again beholden to any single Western European country by accepting tariff preferences.

Besides, a program that would call for a tangle of tariff preferences over the face of Europe would set up a system of trading which is diametrically opposed to the basic principles for the postwar economic reconstruction agreed to by the United Nations. The Atlantic Charter distinctly holds forth the prospect of the enjoyment by all states, great or small, of equal access to the trade and raw materials of the world which are needed for their economic prosperity. The Mutual-Aid Agreements, signed between the United States and many of the United Nations, definitely sets among the objectives toward which they are to work "the elimination of all forms of discriminatory treatment in international commerce."

I recognize that the alternative to regional preferences, namely, a customs or economic union for Eastern Europe, is beset with many difficulties, but they need not be insuperable. I want to deal particularly with two fears which Dr. Basch has voiced. He does not see how certain Eastern European countries can possibly get on their feet economically unless the agricultural self-sufficiency measures of former food-importing countries of Europe are considerably relaxed, especially in the case of wheat. I agree with him, and I believe it can reasonably be expected that this will be insisted upon by the United Nations, as an essential part of any broad-gauged program of postwar European reconstruction, and as a condition of the financial and other aid which most of the European countries will need for their habilitation. The establishment of some form of international police force to maintain the peace—upon the need for which there is now fairly general agreement—should remove the *strategic* reason for Germany, Italy, and even Czechoslovakia continuing to foster self-sufficiency in grain by high import barriers and at a wasteful cost to themselves.

As for the question of the ability of Eastern European grain producers to

compete on the European Continent with producers from the newer overseas countries, students of that problem tell me that there is an important area of Europe where, because of proximity and low transport costs, the Eastern European producers should be able to hold their own. Moreover, pending the more basic readjustments, I have no doubt that place can be found in the proposed international wheat agreement for a fair participation of the Eastern European producers in the market allocations contemplated for the early years after the war. Grain will then be in high demand, and equitable distribution of supplies will be the problem rather than competition between undisposable surpluses.

In the light of the experience of other customs unions, history assures us that we need not be too concerned over the problems of integrating economically countries that differ in their economic organization or stage of social advancement, which seems to be Dr. Basch's second principal concern. The fact that one of the constituent areas is advanced industrially and the other is predominantly agricultural may even be an advantage, since their economies would supplement each other rather than compete. Moreover, we need only recall the differences in many respects between the various Germanic states which came to constitute the German *Zollverein* of the last century, and the even greater differences between the British Cape Colony and the Dutch Republic of the Orange Free State when they formed the first customs union of South Africa back in 1889, a full decade before the Boer war.

Perhaps the best parallel is with the thirteen American colonies, out of which the United States was formed. You will recall that the differences between the Northern States, with their growing industries, active foreign trading, and independent farm operators, and the predominantly slave-holding plantation economy of the Southern States, loomed large in the discussions of our Constitutional Convention. But you may also recall that the early days of the new country were marked by deep economic distress, until the thirteen states saw the wisdom of giving up their individual state tariffs and currency systems and formed a single economic union under the Constitution of 1787.

Our own historical experience, therefore, suggests one final thought, which seems particularly applicable to the present Eastern European situation. The state of feelings between the various peoples in that region immediately after the war may make desirable the formation of more than one political grouping within the single economic federation. But it certainly cannot work the other way. The history of the struggles toward federation in the United States, as well as of Switzerland, proves that it is not possible to create a politically united nation out of economically independent states.

ROUND TABLE ON BASES OF INTERNATIONAL ECONOMIC RELATIONS

LEO PASVOLSKY, *Chairman*
H. J. WADLEIGH, *Secretary*

LEO PASVOLSKY: This session is something of an experiment. Unlike the sessions held during the past four afternoons, it is intended to deal with trade, investment, foreign exchanges, bilateralism, multilateralism, and economic regionalism, not as topics, but rather as the component parts of the complex of international economic relations. By way of introduction to this discussion, I should like to put before you some impressions of the papers and statements presented during the topical sessions.

One cannot read the papers and the summaries of discussions—as I had the pleasure of doing last night—without being struck by the comprehensiveness of the discussion and by the degree of agreement—or, perhaps, I should say the relative absence of basic disagreement—which emerged as regards objectives, and almost so as regards the methods of attaining these objectives. Perhaps this latter was the result of the fact that there was little time for general discussion. If so, here is an opportunity for that.

Let me state some of the propositions set forth in the papers and in the discussion:

1. Expanding world trade is an indispensable factor in making possible economic expansion within nations and, therefore, progress toward full employment and rising living standards.

2. Expansion of world trade requires action with respect to trade barriers. The degree of proposed action varied in the discussion from the concept of gradual reduction by methods embodied in the trade agreements procedures and without sacrifice of "reasonably efficient" and security industries, to the concept of immediate and complete elimination of all tariffs.

3. Bilateralism and stringent control of imports—whatever may be said for them as emergency measures during and immediately after the war—are, in the long run, restrictive of trade. Hence, multilateralism is the desirable—in fact, the essential—basis of expanding trade.

4. A large measure of government trading will be inevitable during the early postwar period. There was some disagreement as to how much of it is likely to persist over a longer period after the war.

5. There will be need for extensive foreign lending, but international finance should be a handmaiden of the international economy rather than an end in itself.

6. A distinction should be drawn between "need" for foreign investment that will meet financial tests and need for foreign investment that will meet political and social tests. While there will undoubtedly be resumption of private lending, such lending will not suffice. Public lending will be a necessary supplement, particularly in the transition stage.

7. While foreign investment will be necessary for the development of backward areas, it will need to be supplemented by better utilization of

domestic resources. Both will be required if living standards are to be raised adequately and with reasonable speed.

8. There may be in the future a trend toward regional balance rather than toward regional specialization. In this connection, many questions were implied as to the precise meaning of the "balance" concept. There is certainly room here for some theoretical discussion.

9. International loans should be used as an instrument of economic stability as well as of development.

10. In order to meet all these requirements, there will be need for planned activity and, probably, for special international institutions in the investment field.

11. Some action will be needed with respect to the adjustment of the international debt obligations which will exist at the end of the war.

12. Stabilization of foreign exchange rates will be essential—again, not as an end in itself but as an instrument for the promotion of trade, employment, and living standards.

13. For the attainment of enduring exchange stability, there will be needed an international institution which would make possible orderly rather than competitive adjustment of exchange rates and which would create some of the conditions necessary for the maintenance of exchange stability.

14. The lend-lease mechanism should be regarded primarily as an instrument of successful prosecution of the war rather than as something that may be retained after the war; although some phases of experience in the methodology of trade and finance growing out of lend-lease operations may well provide a key to important postwar developments in these fields.

15. There may be need for other international institutions than those already indicated in the handling of commodities, in dealing with cartels, in transportation, etc.

16. Economic regionalism may have a place in the postwar world, either as a temporary expedient or as a lasting system.

17. Economic reconstruction will be successful and economic progress will be possible only within the framework of reasonable political stability and security.

18. The position of the United States will be predominant. Hence American policy will largely determine the direction in which the postwar world will move.

19. The future international order will not arise full-grown, but will have to be built upon the basis of the United Nations. Action toward the creation of the necessary international economic and political organization and arrangements for this purpose should be started as soon as possible.

These are the main points I have noted. I state them here as I found them. Even stripped of the accompanying arguments, they provide, I believe, a comprehensive picture of the essential bases of international economic relations.

Some of these points were thoroughly canvassed. Others were merely stated and received but scant attention. I now invite your further discussion of them as parts of a broad picture.

DISCUSSION[1]

Mr. Edminster replied to some of the comments on his paper. He pointed out that he was handicapped by not having the text of the statements by his commentators.

He referred first to the remarks made about a statement in which he qualified his general objective of encouraging an increase of imports. Mr. Edminster had said that reasonably efficient industries which nevertheless require some tariff protection for their continued existence should not be sacrificed. Mr. Crowther and Professor Graham had taken him to task for this. Mr. Edminster replied that in an earlier draft of his paper he had qualified the word sacrifice with the adverb recklessly, but had removed the adverb in the final draft. He did not, however, intend to imply that we should not squeeze out submarginal producers even in generally efficient industries or even in submarginal portions of the output of an efficient producer. In any case, Mr. Edminster did not believe that there was any practical alternative to the retention of tariffs where they are necessary to maintain the existence of reasonably efficient industries. With regard to industries necessary for national security he felt somewhat similar considerations would apply. In any case, his qualification in both cases would require reasonable interpretation.

Mr. Crowther had commented also on Mr. Edminster's statement that "if internal programs for promoting full employment, or for any other purpose, are permitted to take a form where they cannot be executed without the establishment of controls which stifle essential economic relationships with other countries, they will fail of their purpose." Mr. Crowther had said that the converse would be equally true, or even more so; namely, that if any programs for promoting international trade were permitted to interfere with the maintenance of full employment, they would fail of their purpose. To this Mr. Edminster's reply was that he had pointed out the very same thing himself two or three pages earlier than the statement to which Mr. Crowther had taken exception. He quoted: "The second point I would emphasize is that the key to this whole matter of the growth of international trade, as influenced by the spread of industrialism throughout the world, lies in the achievement of those conditions generally which will permit expansion of the world economy and an accompanying rise in the living standards of the masses of the people." And again: ". . . a relatively unhampered flow of international trade promotes—and, in turn, is fostered by—these conditions."

Mr. Opie, also replying to his commentators, expressed surprise that he had been accused of being too diplomatic. He also referred to Professor Graham's remarks about the various international authorities which he had proposed, at the end of his paper, to set up.

Mr. Opie felt that he had definitely not been diplomatic on the subject of bilateralism, but had expressed his own personal views without restraint. Nor had he been motivated by considerations of diplomacy in saying that we

[1] Summary of discussion prepared by H. J. Wadleigh.

should not be scornful of Article VII of the Lend-Lease Agreements on the ground that it confined itself to generalities. Nations could not reasonably be expected to reach agreement on matters of detail before they had agreed on principles. Furthermore, Mr. Opie emphasized again that, in his view, the object of Article VII was not a restoration of the conditions existing before the war but the creation of a flexible set of instruments for international collaboration in the light of conditions which might exist in the forthcoming postwar period. Hence, the various authorities to which Professor Graham had taken exception would, in Mr. Opie's opinion, follow the intent of Article VII. Nor did Mr. Opie feel that the establishment of certain international authorities constituted an overambitious program. Particularly was this true of the transportation authority which he had suggested. If the nations of the world could not co-operate after this war in the field of transportation—an activity which is by its very nature international in large part—there would seem to be little basis for hope of international co-operation in any field. On the other hand, Mr. Opie had not intended to throw his weight on the side of international commodity schemes which might be monopolistic in character. Mr. Opie emphasized again his feeling that it is important not to confuse transitional postwar problems with problems of the longer run. He had felt, in listening to Mr. Crowther's comments, that the commentator was perhaps not entirely free from a confusion of those things which are inevitable in the transitional period with those that we would choose as objectives for the longer run.

MR. CROWTHER said he had been accused of weasling on his own views—a crime worse than being diplomatic. This accusation, however, had been based on the assumption that Mr. Crowther was a follower of the views of Lord Keynes. The assumption was without foundation. Mr. Crowther defied any member of the round table to find an article in the *Economist* supporting Lord Keynes's views on international trade.

The main purpose of his remarks, Mr. Crowther said, had been to plead for a distinction between ends and instrumentalities in international trade. He felt that this plea had not been fully appreciated. Anyone, he said, who had doubts with regard to a return to free trade was in danger of being bracketed with the enemies of international trade. Consequently, those who feared this danger had coined the recent euphemism "freer trade."

Mr. Crowther illustrated his distinction between ends and instrumentalities by the following example: Suppose, he said, that Great Britain could, through a policy aiming towards full employment, add a thousand million sterling to its national income. A three hundred million sterling increase in imports could then be expected. If, in such a situation, the British Government were to take measures to limit that increase to an amount which the balance of international payments would tolerate, would such measures be inconsistent with the aims of a policy intended to increase international trading? Mr. Crowther believed not. On the other hand, it would clearly be inconsistent with certain hard and fast views on instrumentalities which prevailed in some quarters. Such hard and fast views, he said, were based on a hope of a return to the

nineteenth century. Mr. Crowther feared that such a hope would be disappointed.

Mr. Chalmers took exception to the statement that the phrase freer trade was a mere euphemism. We here, he said, believe in what this phrase means literally. In particular, he was concerned about the interest currently expressed by some economists in government trading. It was not clear to him whether this was meant literally or whether some form of supervisory control was intended. He felt that there were considerable dangers in government trading in the literal sense. A private trader does not care from what country he buys, but a government is inevitably influenced by political considerations and often by political commitments, such as those which we have incurred in connection with our purchases in the Western Hemisphere. The British have also made commitments to maintain output of certain minerals in certain countries, similar to their commitments to Australia with regard to wool after the last war. After this war, Mr. Chalmers believed we would ask European countries to reorganize their trading systems on a freer basis. If we should do this while we ourselves are tied up in all kinds of government trading commitments, it would be a case of the pot calling the kettle black.

Mr. Crowther replied to Mr. Chalmers by pointing out that the joint boards have effected a greater increase in international trade than had ever come about through private trading.

Mr. Opie said that there was a serious problem as to the extent to which private traders would tolerate the incorporation of state trading into the system of international trade. If state trading were developed beyond some unspecified limit, he felt that private traders might be inclined to withdraw. [Mr. Opie writes that the above does not express accurately what he had said. He did not intend to say that private traders would be inclined to withdraw. His point was that before the war the system based mainly on private trade did tolerate (i.e., carry along with it) a certain amount of state trading without any special mechinery being set up to make this possible. The question raised was whether it would be possible to do the same after the war or whether the extent of state trading would be such that some special machinery would have to be set up to govern it.—Editor.]

As regards Mr. Crowther's distinction between ends and means, Mr. Opie said that to him the end was not maximum volume of trade but maximum opportunity for trade on the basis of comparative advantage. As regards Mr. Crowther's hypothetical example in connection with the balance of payments, Mr. Opie thought it would be hard to determine the basis for a decision to limit the increase in imports. The effect on the balance of payments would not be easy to estimate in advance. It is artificial to limit the time of accounting to, say, one year which might not be long enough to allow the economic forces making for equilibrium to work themselves out.

Mr. Wadleigh commented on Mr. Crowther's distinction between ends and

instrumentalities. He pointed out that hitherto commercial agreements and treaties have been based almost entirely on commitments with regard to instrumentalities. Mr. Crowther's suggestion would presumably call for the development of entirely new techniques to place commercial treaties and agreements on a basis of commitments with regard to the substance of trade. In Mr. Crowther's example, the existence of commercial treaties based on instrumentalities might make it very difficult for a government, having increased its national income through a full employment policy, to take special action to limit the resultant increase in imports.

The above statements regarding commercial treaties and agreements might apply also to international monetary arrangements in the postwar world, if such arrangements should be based on substantial commitments with regard to monetary policy. If an attempt were made to establish a definite and fairly ambitious international monetary arrangement after this war, there would need to be a clear understanding as to what kinds of policies countries would follow if they should need to correct an unanticipated disequilibrium in their balance of payments. Such an unanticipated disequilibrium in their balance of payments might arise from entirely unforeseen circumstances such as those which faced Chile when the production of synthetic nitrates was first developed. In such a situation a country might find that the line of least resistance would be the imposition of new trade barriers to confine the value of imports within the limits imposed by the reduction of the country's income from abroad. It would be necessary to decide in advance whether the use of such methods should be permitted in such a situation.

Mr. Wadleigh added that he wished his remarks to be interpreted as a statement of a problem rather than a negative answer to a proposal. The devising of new techniques to fit the requirements of Mr. Crowther's view would, he believed, be a difficult task, but the problem should nevertheless be explored.

A member of the round table believed that an international agreement to maintain existing international monetary policies in the various participating countries would help to solve the problems raised in the preceding discussion.

Another member of the round table believed that there was too much timidity with regard to limitations of national sovereignty. Adam Smith had not been timid about such limitations but had hoped that they would come about automatically. Since his day history had disappointed these hopes, and the speaker believed that more positive action should be taken to achieve the necessary limitations.

Mr. Mayer raised questions as to the general aims of international trade policy. Sometimes, he said, the aim was stated to be full employment, and at other times, a higher standard of living. He questioned whether a larger volume of trade would necessarily contribute to either of these aims. He believed it might be more appropriate to seek orderly trade based on international agreements. Free trade, he said, was another name for chaos. He was in favor of maintaining our tariffs but removing discriminations. The new

system should be based on international agreements and on "rules of the game."

Mr. Mayer thought it was a fallacy that a larger volume of trade would result in fuller employment. The result of a larger volume of trade was simply that people would shift their consumption from domestic products to imported products. Corresponding to the increased value of the imported products consumed there would be an equal increase in the value of goods exported. Hence the total value of goods sold by American producers would remain unchanged. This process in itself could hardly contribute to an increase in employment.

Access to raw materials, Mr. Mayer believed, would establish a better standard for international trade policy than the idea of increasing employment.

Mr. Larry made some observations on Professor Haberler's remarks at a previous session on the means of adjustment of the British balance of payments. Mr. Haberler had argued that the elasticity of demand for British export products must exceed unity, and that hence a lowering of the international exchange value of sterling would adjust the balance by effecting an increase in the total value of exports. Mr. Larry, while accepting Professor Haberler's views regarding the elasticity of demand for British export products, believed that the important problem in the postwar period would concern not the balance of payments between the United Kingdom and the rest of the world but that between the United States and the rest of the world, since the problems of the United Kingdom would be shared by most other countries, with the exception of the United States.

The important question then was whether a lowering of the export prices of products imported by the United States would increase our imports of those products. In the case of our imports, Mr. Larry believed that changes in price made little difference to the quantity, at least as regards the larger items in our import trade which consist of raw materials. These materials, Mr. Larry believed an analysis of our trade in recent years would show, were imported in amounts depending on the volume of industrial activity in this country and largely independent of prices. To be sure, there were many minor items, such as, for instance, clocks and watches, which might be imported in much larger quantities if the price asked by foreign exporters were lower in terms of dollars. On the whole, however, he doubted whether our elasticity of demand for goods which we import could exceed unity.

If this were correct, then the most effective means of solving the problems of the balances of payments of the rest of the world would be to raise the prices of the raw materials constituting the principal items of our import trade. This was done with some success during the interwar period, for instance, through the Stevenson Rubber Plan, which did not reduce the quantity of our imports of rubber in the same proportion as it raised the price.

The alternative would be an adjustment of the balance of payments between this country and the rest of the world through reduction of our exports, which would result from a reduction in the values of foreign currencies in terms

of the dollar. Mr. Larry believed that adjustment on a larger volume of trade would be more satisfactory.

Mr. Basch resumed the discussion of economic regionalism in Europe on which he and Mr. Chalmers had read papers at a previous session. There was general agreement, he said, that economic regionalism is necessary for Europe. The difference between his own views and those of Mr. Chalmers related in part to the area which should be included in a regional arrangement or arrangements. Mr. Chalmers believed that in East Europe it would be necessary to include both the group consisting of Poland and Czechoslovakia and the Balkan group in a single regional arrangement. In regard to this matter, Mr. Basch thought that the remark made by Mr. Chalmers with reference to the Oslo countries might well be applied to East Europe. Mr. Chalmers had said that the Oslo group might be enlarged if the countries concerned should desire it. Mr. Basch believed the same principle should be applied to East Europe. If the northern and southern group desired to coalesce it would be desirable that they should do so. But what if they should not desire it? Mr. Basch did not believe that compulsion should be applied. Mr. Chalmers had said that it was imperative that the difficulties, whatever their nature, should be overcome. But how was this to be done? asked Mr. Basch.

Another point of difference related to preferences, to which Mr. Chalmers was opposed. To this Mr. Basch inquired how Mr. Chalmers would deal with the emergency period immediately following the war. If Mr. Chalmers could find appropriate methods of dealing with this problem, Mr. Basch would be pleased to welcome them as an alternative to preferences. In any case, Mr. Basch had assumed that the internal tariffs of the region would be lowered in connection with the establishment of preferences. The main difficulty was that the agricultural countries of East Europe would insist on protection or some equivalent measure to help establish new industries. With complete internal free trade in the region they would not be able to compete with Czech and Polish industries, and without industries of their own they would have no means of solving the problem of overpopulation. Mr. Basch referred in this connection to the statement by Mr. Lockwood at a previous meeting that China and India would insist on some degree of protection in order to stimulate industrialization. The alternatives to internal tariffs would be some form of internal planning which would give special encouragement to the development of industries in the agricultural countries, or subsidies. If either of these were adopted, the customs union could not be regarded as a real customs union.

Mr. Basch added that while the motives for unification were based both on economic and on security considerations, the importance of unification would depend on the extent to which the economic and security problems could be solved on a world basis. The more we could do to solve these problems on a world basis, the less urgent would be the need for regional unification.

Mr. Pribram observed that regionalism in history has always been based primarily on political concepts. Even the German *Zollverein* was based largely

on the German reaction to the existence of larger political areas, particularly the growing British and Russian Empires.

Reverting to the previous discussion with regard to tariff protection in general, Mr. Pribram expressed the view that the problem of international cartels was apt to be overlooked by some. He believed that those who are interested in reducing or removing protectionism should remind themselves that even if the protectionism were to disappear entirely, international cartels might still greatly limit the opportunities for international trade.

Mr. Weiss suggested that an important consideration had been forgotten, or perhaps taken for granted in the preceding discussion. In order to re-establish international trade it would be necessary to have not only commodities for sale but also customers to buy them. Before we could have trade it would be necessary to restore the property rights of those with whom we would wish to restore trade. The previously existing property rights had been destroyed and scrambled by the Axis, and some form of rights must be inevitable.

The main question to be settled in this connection was whether compensation for property rights destroyed by the enemy should be made according to need or on a strictly legal basis. He himself preferred the former, since settlement could be made rapidly on this basis, whereas a strictly legal basis would take years, perhaps even decades, to settle.

Mr. Chalmers commented on Mr. Basch's doubts with regard to the larger area in East Europe. Perhaps, he said, it would be best to have two groups: a northern and a southern one. But he believed that this would materially weaken the economic benefits to be gained. The agrarian countries of the Balkan Peninsula, on the one hand, and the Czech-Polish group, on the other, had potentially complementary economies; within each of these groups there was little complementarity, and there would be correspondingly little economic gain. The bases for these two groups were largely political, and Mr. Chalmers believed that groups with a political basis would have little chance of success unless they gave rise to substantial economic benefits. As evidence of this, Mr. Chalmers cited certain historical examples. The success of the *Zollverein,* he believed, was largely due to the fact that they achieved economic benefits before any close political unification took place. Furthermore, there were important political difficulties between the members of the *Zollverein.* The same, he claimed, applied to the customs union between the Orange Free State and Cape Colony in South Africa, which was established a decade before the Boer War. Between the two colonies there was considerable political friction at the time but the union was a success because of the economic benefits which resulted from it. On the other hand, history provided many examples of political unions which were failures because they had no economic basis. Mr. Chalmers cited the case of Switzerland, where before 1848 there were customs barriers within the Confederation which almost led to revolution. The crisis was finally solved by the establishment of internal freedom of trade in 1848. Similarly, the original thirteen states of our own nation did

not succeed in establishing a solid union under the Articles of Confederation because that instrument permitted the establishment of customs barriers between the states. It was only with the establishment of internal freedom of trade through the Constitution that dangerous friction between the states was eliminated. Furthermore, as regards the establishment of internal barriers within East Europe after the war, Mr. Chalmers pointed out that the war has wiped out the internal trade restrictions and monetary relations of that area, and suggested that in the period immediately following the war import restrictions will be of no particular significance, and that, as after the last war, export controls would constitute the principal problem.

Another argument against preferences in East Europe was that it would be impossible to ask the British to relax their preferences if we were to encourage the establishment of regional preferences in East Europe. Again, Mr. Chalmers believed that agrarian East Europe would be demanding preferences, not only in Czechoslovakia and Poland, but, more important, in the food deficient industrial countries of Western Europe. However, he believed that the United Nations might well insist on changes in the commercial policies of these industrial countries of Europe, particularly the German and Italian policies relating to wheat, which had been based upon a desire for self-sufficiency in war. Assuming an adequate security organization, there would be no reasonable basis for such policies.

Finally, Mr. Chalmers believed that the establishment of internal free trade in an East European union would not prevent the agrarian countries from developing industries. In our own country, he said, industries which had earlier been concentrated in New England had spread to the South and West: the textile industries had migrated to the South; the shoe industries to the neighborhood of St. Louis; industries processing iron and steel have moved into the Great Lakes area. The chief basis for all these movements had been the desire of the inhabitants of the West and South to develop the processing of their own local raw materials.

MR. BASCH replied that his concern was with the economic and not the political aspects of unification, and that it is on this basis that he did not believe free trade within the larger East European group could be made to work. The agricultural protectionism of Czechoslovakia, he said, did not grow out of a demand for self-sufficiency, but was a result of the reaction of the Czech farmers to the loss of half the markets for their sugar exports, resulting from the competition of cane sugar, and the reduction in their agricultural exports to Germany. Furthermore, Mr. Basch said, we could not know what economic systems would prevail in such countries as Rumania, Hungary, or others. If some of these countries were capitalistic and others socialistic, evidently a complete unification would not be possible.

Mr. Basch said that he would advocate his proposal for partial unification only with reference to the transitional period immediately after the war, and he would wish to leave it to be determined during that period, on the basis of the desires of the countries included within the group, what arrangements should be made on a permanent basis.

MR. JANSEN disputed a statement made by Mr. Mayer earlier in the discussion, and claimed that tariffs are inevitably and by their general nature discriminatory. Even under the whole program, which aims to avoid and eliminate discrimination wherever possible, tariff modifications had sometimes been discriminatory in their results. How would it be possible, he asked, to make the rules of the game so effective that no discrimination whatever would be possible?

MR. MAYER reverted to the subject of the migration of industries from New England. He pointed out that New England did not in effect have a permanent comparative advantage, but that industries had been established there through historical accident. Nevertheless, their establishment in that area had made it extremely difficult for a long time for areas with better natural advantages to compete. Such facts, he claimed, invalidate the theory underlying the belief in free trade.

As regards the question whether unions can start either on a political or economic basis, Mr. Mayer believed that it made little difference. The real question was whether groups of countries could agree with each other, and whether their agreement was implemented by customs unions, preferences, or other arrangements of secondary importance.

MR. POTTER believed that many of the problems to which speakers had referred earlier could be solved more satisfactorily if appropriate national monetary policies could be developed. As a basis for such policies, Mr. Potter advocated the abolition of the partial reserve system which gives the banks control of the monetary structure and the assumption by national governments of control through fiscal policy.

MR. PASVOLSKY: Two things have impressed me in this discussion. They are:

1. The fact that the discussion has centered predominantly on problems of international trade. That, from my point of view, is the natural emphasis, since trade is by far the most important and basic of international economic relationships.

2. The fact that more differences of views have emerged as we probed deeper into the problems involved. These differences do not disturb me. On the contrary, they are indicative of the great complexity of the situation which confronts us and of the multiplicity of problems with which all of us have to deal.

I think there is great value in discussions of this kind. They throw useful light, for all of us, upon the important questions of the day, among which the basic problems of international economic relations are truly crucial.

ROUND TABLE ON INTERNATIONAL COMMODITY AGREEMENTS

JOSEPH S. DAVIS, *Chairman*
ROBERT M. CARR, *Secretary*
GORDON P. BOALS, *Assistant Secretary*

The round table meeting on international commodity agreements was designed to provide an opportunity for an informal, off-the-record exchange of views among members of an invited group. The members included persons with specialized knowledge of the trade in beef, coffee, drugs, rubber, sugar, tea, timber, tin, wheat, and other commodities, and experience in drafting or administering international agreements in respect of such products. Included in the group were officials of the United States and foreign governments and of international organizations, students of commodities and international policy, and businessmen. The types of agreements to which the discussion related were intergovernmental agreements in respect of commodities in a world at peace, following the transition period of relief and rehabilitation.

The discussions during the afternoon and evening sessions covered a wide range of subjects. It was evident that many present, especially those who had been more concerned with the negotiation or operation of international commodity agreements, considered that they offered an important method for bringing about a more stable and rational world when the war is over. There was less general agreement, however, with regard to such questions as the number of effective commodity agreements which might be negotiated, their effect on consumers, their relation to the removal of trade barriers, and the possibility of eliminating many of the objectionable features associated with early commodity agreements and with private international arrangements to control trade. In the following summary, which attempts to present the general drift of the meeting rather than a consecutive report, the principal points brought out in the discussion are grouped under four general headings: (1) Prewar Experience, (2) Problems and Limitations, (3) The Need for Agreements, and (4) Postwar Development.

I. *Prewar Experience*

A review of prewar experience with a number of commodity agreements indicated that they had achieved to a considerable degree certain objectives and at the same time that a number of features of the early agreements are in need of modification. In view of the evolutionary development which has been and is taking place in commodity agreements, broad generalizations are difficult. They need to be examined individually.

In the case of the Beef Conference between the United Kingdom, Australia, New Zealand, Argentina, and certain other countries quarterly quotas were an important feature. During the two years which it operated before the war, the participants were always able to reach an agreement on quotas for the United Kingdom market. The agreement had the effect, moreover, of moderating

fluctuations in beef prices in that market. These were lower than the long-term average but higher than those which prevailed during the few years prior to the Conference. Owing to the elasticity of the demand for beef, various exporters were opposed to too high prices and the United Kingdom, having a program of subsidizing its own producers, was not in favor of too low a level of import prices. The prices which resulted from the Conference were regarded by consumers as reasonable. The success of the scheme was due in part to the fact that the United Kingdom had the ultimate responsibility for determining the import quotas in the event that agreement in respect thereof could not be reached among the participants and that the scheme, involving only the United Kingdom market, was relatively simple.

The effort which has been made to control international trade in dangerous drugs has had, of course, a different purpose from that of other commodity controls, but the experience with drug control might be brought to bear on efforts to control trade in other commodities. Attempts to control the trade in the raw material of drug products and in opium for smoking have not as yet been marked by much success. Effective control of several manufactured products by international agreement was developed, however, and has been in operation for some time. Under the scheme which was developed, there was in effect an agreement each year between participating governments regarding their legitimate import needs and export quotas were allocated accordingly. Once agreement was reached, the scheme provided an automatic sanction against any importing country which exceeded its quota. The sanction consisted in the withholding of export supplies to that country.

The International Rubber Control was effective to a considerable degree in prevented, it was declared, a long-time downward trend in rubber prices beneficial to consumers. Although the rubber manufacturers of the United States were opposed in principle to regulation of the trade, they nevertheless considered it to their interest to take advantage of the opportunity afforded by the scheme to make known their views in the International Rubber Regulation Committee and found that knowledge of their problems on the part of the Committee facilitated a reasonable exercise of control. Greater price stability afforded greater security to investment in the American industry and made possible smoother operations of the business. The industry, therefore, was better able to improve its products and to supply them to the public at prices lower than would otherwise have been possible.

In respect of the international timber trade, attempts at direct regulation of prices have not been found to be very effective. Better results toward obtaining price objectives have been secured through regulation of quantities entering the trade, together with frank and free interchange of information regarding price situations.

II. *Problems and Limitations*

The criticism of commodity agreements ranged from objections in principle to observations regarding certain of their limitations. The principal charges against such agreements were their tendency to increase prices, the inadequacy of consumer representation, the restrictive effect on small producers, the lack

of provisions for the improvement of labor standards, deficient stocks for emergencies, the difficulties presented by synthetic substitutes, the limitations of scope, and their failure to remove the basic causes of raw material surpluses.

Increased prices, it was stated, rather than price stability has in the past been the principal objective of commodity agreements. Their antecedents have in many cases been private arrangements among powerful producers which appeared to ease the difficult tasks of governments in dealing with economic maladjustments. The efforts of such producers to raise prices resulted frequently in the rise of new competitors in the international market. The need arose then of including them also in the trade control scheme and pressure was exercised on governments of the producing areas for assistance in establishing international commodity controls on a more secure basis.

Moreover, although there are valid distinctions between commodity agreements and private international cartels, their price objectives are so strikingly similar that any government which accepts the principle of commodity agreements will find its position against cartels materially weakened.

It was argued that efforts to maintain price stability over periods of the business cycle should not be permitted to stand in the way of possible downward secular trends in prices; that prices of commodities subject to control should be kept relatively low compared to those of other commodities since production of the former is in need of adjustment which low prices would help to bring about; and that subsidization of exports from any participating country which is unable to compete in international trade at the prices established under the agreement should be prohibited.

With reference to the protection of consumer interests, it was observed that producers under one agreement are consumers under another and that, therefore, the consumers really benefit in their capacity as producers. On the other hand, commodity agreements are limited to raw materials of which the producers, it was maintained, represent a relatively small part of the world economy.

It was pointed out that the threat to producers of potential competition from new or small producers had not always in the past assured reasonable prices and it was doubted that participation in commodity agreements of importing countries would in the future give such assurances. In the first place, the consumers, not being organized in most countries, are relatively inarticulate. Absence of complaints on the part of the United Kingdom beef consumers is not necessarily an indication that their interests in regard to the Beef Conference are adequately safeguarded. Although it is well known, for instance, that import tariffs constitute a heavy burden on consumers, records of the United States Tariff Commission fail to indicate such opposition on their part as their interests would warrant.

Processors of imported materials, such as rubber manufacturers in the United States, do not really represent the ultimate consumer. They may have financial interests in the foreign production, or heavy investments in inventories which they desire to protect.

Neither are the governments of importing countries in many cases in a position to represent adequately consumer interests. The imported commodity frequently competes with products of domestic producers receiving government protection. In view of the rise of synthetic rubber production in the United States, it may be expected for instance, that a postwar rubber agreement will present a problem in this regard. Although the United States Government participates in the sugar agreement as an importing country, presumably representing the interests of consumers, it is at the same time interested in the maintenance of protection for the domestic sugar industry.

Moreover, in instances in which the production of the commodity subject to agreement is concentrated in a few areas, and in which a closely knit organization of producers is possible, importing countries are not, it was held, in a strong position to influence the operation of the agreement, since their participation may not be essential to maintaining control over the trade.

Furthermore, insofar as participation of consumer interests in commodity agreements becomes more effective, the enthusiasm for such agreements on the part of producers may be expected to decline.

Not only consumers but also the small producers, it was claimed, are adversely affected by commodity agreements. Such producers are frequently able to compete at lower prices and would have extraordinary opportunities to develop their production outside of the control but are often induced to participate by the offer of an exceptionally liberal share of the world market.

Neither have the interests of workers fared well under commodity agreements, according to some views. It was doubted that such agreements are, in this respect, consistent with the objective set forth in the Atlantic Charter, to improve labor standards. In certain producing countries they have had the effect of freezing wages at low levels by retarding or discouraging economic adjustments required for greater labor productivity.

One of the objections to commodity agreements was that not enough supplies have been available to make possible adequate stockpiling for purposes of emergency.

In the opinion of some persons, commodity controls aggravate rather than relieve the basic problem of surpluses, it being argued that the high prices artificially maintained lead to higher capitalized costs, which worsen the situation of the producers.

At any rate, one of the basic objections to commodity controls was that they fail to deal with the fundamental problems of economic adjustments responsible for surpluses. The need, it was said, is for full industrial employment and the reduction of import barriers in order that expanded markets may be provided for raw materials. Failing to deal with the basic problem, commodity agreements mean that the world must continue to support indefinitely inefficiency in production. A large number of such agreements would impose upon the world a pattern of economic restrictions which would preclude freedom of trade without which economic growth is impossible.

Other arguments related to limitations on the scope of commodity agreements due to the difficulties which they have to face. Natural raw materials

are to a growing extent faced with competition from synthetic substitutes, as in the case of natural and synthetic rubber and cotton and rayon. Unless trade in the synthetic product is also controlled, the benefits of control over trade in the natural product may be extremely limited. The inclusion of the synthetic product under the control scheme might stultify the possible development of good and cheap substitutes.

Moreover, the possibilities for the development of commodity agreements will, it was pointed out, depend to a large extent on other postwar arrangements and upon conditions existing after the war in various countries. Whether or not such agreements will be feasible or desirable in the postwar world will depend upon what provision is made for freeing and stabilizing international exchanges and also for reducing import barriers. Furthermore, an agreement in respect of some commodities such as butter, for which the demand is especially elastic, would probably not be feasible at all, at least not until further attention is given to the trade cycle problem. Careful consideration, moreover, has to be given to the impact of international trade control schemes on the internal economy of such countries as Australia, which, because of a limited domestic market, must adhere to the one-price system. These considerations impose limitations on the number of commodity agreements possible. A too ambitious program or the exercise of pressure under a world authority may alienate countries which otherwise might participate to a limited extent.

III. *The Need for Commodity Agreements*

The argument for commodity agreements was based in a large part on the need for practical international collaboration in dealing with specific economic problems and for assurances of international economic stability.

The view was expressed that, regardless of the question of desirability, governments will continue after the war to intervene to an increasing extent in internal economic affairs. The prospects are that there will be more rather than fewer two-price systems. There is little probability that prices of wheat and cotton in the United States will be permitted to return to the world level. In such circumstances, international agreements for regulating world trade in commodities subject to the two-price system are necessary if order in international economic relations is to be achieved. It is only by such agreements that different national policies can be reconciled and that the principles of international co-operation laid down in the Atlantic Charter and Article VII of the Mutual Aid Agreements can be given effect. The alternative is a nasty species of international conflict involving subsidies, tariffs, and discriminations. The development now of commodity agreements will, it was argued, clear the way and provide experience for further and broader international collaboration.

With reference to the problem of economic stability, it was pointed out that uncertainty in international trade relations frequently gives rise to trade restrictions which go far beyond what is required in the situation to afford the protection and security desired. If a country has some knowledge of the quantities of a foreign product which are likely to compete in its market with a domestic product, it may be able to adopt less restrictive tariffs to obtain

the degree of protection desired. Uncertainty regarding the quantities of Russian wheat which would be thrown on the world market was one factor accounting for the rise of European wheat tariffs in the early thirties.

Assurances in regard to markets, it was stated, are essential, moreover, to effect economic adjustments necessary to solve surplus problems. Our economic system is largely based on assurances or contracts of one sort or another. An increasing quantity of industrial goods is produced on an order or contract basis. Many employees, especially professional classes, have assurances or contracts which secure their livelihood for specified periods, and trade unions have contracts regarding wages. Farmers are also entitled to contracts, and in return they should be required to assume such obligations regarding production as may be required to effect necessary economic readjustments. It cannot be expected that farmers can be persuaded to turn from the production of wheat to that of other commodities unless they have some assurance as to what alternatives are involved in the way of income. Commodity agreements, by indicating for specific periods definite prices and market opportunities, provide, it was maintained, a means of directing shifts in production especially with reference to marginal or inefficient producers.

A major factor, it was observed, accounting for instability in international economic relations and consequently contributing to the rise of import barriers is the unfavorable economic position of raw material producing countries. Most such countries are debtor countries. Their debt services are a large and relatively inflexible item in their international balance of payments. Furthermore, since in periods of declining prices the prices of their exports fall much more than the prices of imported finished products, the strain on their supplies of foreign exchange is greatly intensified. As a result, they resort to import restrictions and to foreign exchange control to protect their internal economic and financial structure. Thus, foreign markets of the manufacturing countries are cut off, industrial activity declines, the demand for imports of raw materials and foodstuffs contracts, and world surpluses accumulate. There arises a vicious circle of cumulative depression in international economic relations. Insofar as commodity agreements are able to prevent deterioration in the terms of trade of the raw material producers, the strain of economic disequilibrium will be eased, the pressure for import restrictions will be relieved and necessary adjustments will be facilitated.

It was further argued that commodity agreements similar to the recently concluded wheat agreement afforded an opportunity to meet effectively the need of consuming countries for adequate supplies of necessary food or raw materials at all times at reasonable prices. The threat of irregular or scarce supplies and consequent high prices is removed by provision for the maintenance of minimum reserve stocks.

IV. *Postwar Development*

Suggestions, some of which are incorporated in recent agreements, including the International Wheat Agreement, were offered regarding policies and principles which should be followed in the postwar development of commodity agreements. Among them were the following:

The agreements should be intergovernmental agreements open to all interested exporting and importing countries. Adequate consumer representation should be provided with voting power equal to that of the producer interests. Provision should be made for the encouragement of efficient production, for securing to labor a fair share of the benefits, and for supplying fully all demands at limited prices. Arrangements should be made in connection with such agreements for a "horizontal" approach to the reduction of import barriers, supplementing the "vertical" approach of the reciprocal trade agreements. Unwanted surpluses should be made available for relief distribution. Furthermore, commodity agreements should ultimately be co-ordinated not only with one another but also with other postwar economic arrangements to insure harmony of purpose. International machinery should be established to guide and control the development of such agreements, as the number increases, with reference to a body of accepted principles. This would serve to integrate various commodity agreements into a consistent and mutually beneficial commodity program. However, such machinery should be linked to a broader world authority which could fit the program into the whole pattern of world organization. The commodity program would need to be related not only to political measures for the maintenance of peace but also to international measures for providing assistance to countries in need, for facilitating and controlling international capital movements, for promoting industrialization in undeveloped countries, for maintaining exchange stability, for reducing import barriers and for raising everywhere living standards.

Thus, commodity agreements, wisely guided, may promote in the field of international economic relations freedom from fear without which there can be no freedom from want.

MINUTES OF THE BUSINESS MEETING OF THE AMERICAN ECONOMIC ASSOCIATION HELD IN WASHINGTON, D.C., JANUARY 6, 1943

The 1942 business meeting of the Association was held at 3:00 P.M., January 6, 1943, in the Auditorium of the United States Department of Commerce Building, Washington, D.C., President Nourse presiding.

The minutes of the meeting of December 30, 1941, were approved as printed in the *Proceedings of the Fifty-fourth Annual Meeting*, pages 490-492.

The following reports were submitted:

1. The Secretary. (See page 475.)
2. The Managing Editor. (See page 484.)
3. The Treasurer. (See page 486.)
4. The Finance Committee. (See page 488.)
5. The Auditor. (See page 490.)

No formal reports were submitted from our representatives to the Social Science Research Council or the American Council of Learned Societies. Some reference to the activities of the Councils is made in the Secretary's Report.

Upon motion of Professor F. D. Graham, it was VOTED that the incoming president appoint a committee to consider the possibilities of focusing and making the informed opinion of our membership more effectve in matters of political importance; for instance, the rubber inquiry, rationing, price control, etc.

No report was received from the Committee on Standards for Economists in the Public Service, but it was learned from Dr. M. A. Copeland, Chairman, that the Committee is still active and operating.

No report was submitted on Professor B. H. Hibbard's motion involving consideration of time and place of annual meetings.

In the absence of a resolutions committee report, the Secretary was instructed to send letters of appreciation to Professor Russell Weisman, Chairman of the Cleveland Committee on Local Arrangements, and to Dr. Amos E. Taylor, of the United States Department of Commerce.

All actions of the Executive Committee as recorded in the minutes were formally ratified.

The Secretary presented the certification of election:

In accordance with the bylaws on election procedure, I hereby certify the results of the recent balloting, and present the reports of the Nominating Committee and the Committee on Elections.

The Nominating Committee, consisting of Frederick C. Mills, Columbia University, Chairman, Clare E. Griffin, University of Michigan, John Ise, University of Kansas, Donald M. Halley, Tulane University, William Adams Brown, Jr., Brown University, George W. Terborgh, Machinery and Allied Products Institute, and Morris A. Copeland, War Production Board, presented to the Secretary the list of nominees for the respective offices.

For President
Albert B. Wolfe

For Vice-Presidents
Eugene E. Agger
Emanuel A. Goldenweiser
William M. Leiserson
Myron W. Watkins

Representative to Social Science Research Council
Edwin G. Nourse
Woodlief Thomas

For Executive Committee
George R. Davies

Corwin D. Edwards
Harlan L. McCracken
Carl S. Shoup

Representative to American Council of Learned Societies
Frank H. Knight
Arthur W. Marget

The Committee on Elections (Leverett S. Lyon, Chairman, Simeon E. Leland, and James Washington Bell) prepared biographical sketches of the candidates and ballots were distributed early in December. The canvass of ballots was made on December 26 and 31, 1942, and the results were filed with the Secretary.

From the report of the Committee on Elections I have the following information:

Number of envelopes without names for identification	22
Number received too late to count	—
Number of defective ballots	—
Number of legal ballots	765
Number of returns from the mail ballot	787

On the basis of the canvass of the votes cast, I certify that the following persons have been duly elected to the respective offices:

President (for a term of one year)
  Albert B. Wolfe
Vice-Presidents (for a term of one year)
  William M. Leiserson
  Myron W. Watkins
Members of the Executive Committee (for a term of three years)
  Corwin D. Edwards
  Carl S. Shoup
Representative to the Social Science Research Council (for a term of three years)
  Edwin G. Nourse
Representative to the American Council of Learned Societies (for a term of four years)
  Frank H. Knight

James Washington Bell, *Secretary*

It was VOTED to refer to the Executive Committee, with power to act, the time, place, and character of our meetings for 1943.

The Secretary was instructed to draft and send a letter of condolence to Mrs. Davis Rich Dewey.

Adjourned.

REPORT OF THE SECRETARY FOR THE YEAR 1942

The following report includes the minutes of the second and third meetings of the 1942 Executive Committee and the first meeting of the newly constituted committee for 1943. Following these minutes, the Secretary submits brief comments on some of the activities and operations of the Association during the past year.

1. Minutes of the second meeting of the 1942 Executive Committee:

The second meeting of the 1942 Executive Committee was held at the Biltmore Hotel, New York City, 6:30 P.M., March 20 and 21, 1942. There were present: President Nourse, presiding, and Messrs. Bell, Brown, Crum, Graham, Homan, May, Slichter, Viner, Watkins, and Witte.

The minutes of the December 30, 1941, meeting were read and approved as printed in the March, 1942, supplement of the *American Economic Review* (page 495).

President Nourse made a few preliminary remarks concerning the business to be transacted at this meeting.

Professor Homan discussed the operations of the Managing Editor's office, reported on the progress of the Blakiston project volumes, and asked to be relieved of the chairmanship of this committee.

The Treasurer described briefly the status of the Association's finances, outlined the estimated costs of the *Proceedings*, the "who's who" handbook, the TNEC supplement, and the four issues of the *Review*, together with the probable income for the balance of the year. Placement announcements, membership statistics, Canadian collections and exchange costs, complimentary subscriptions, circularization of the information booklet were other matters discussed. The sentiment of the group favored the sending of our publications to army camps if we were requested to do so.

In the discussion of the papers and proceedings of the 1941 meeting, Slichter described arrangements made for the publication of papers presented at joint sessions. He emphasized the desirability of arriving at definite, written understandings with the presidents of the other associations with whom we schedule joint sessions with regard to publication agreements. The size and costs of the present volume of papers and proceedings was described and discussed.

Professor Homan reported on the TNEC supplement.

The format, questionnaire, personnel classification of the 1942 "who's who" handbook were discussed.

President Nourse reported that he had not appointed a subcommittee on aid to the *Review of Economic Studies* but had assumed a personal responsibility in obtaining from Mrs. Hicks and Mr. Sweezy a list of the American subscribers to the *Review of Economic Studies*, and he took occasion to distribute these lists by institutions to representative members for personal solicitation of new subscribers, with the suggestion that United States checks be made out to P. M. Sweezy, who would then buy sterling in one transaction. Professor Homan reported that the March number of the *American Economic Review* would contain a note describing our efforts and procedure in helping this enterprise.

The rest of the evening was devoted to the discussion of the program proposed in general terms by President Nourse. The meeting recessed at 11:45 P.M. to reconvene Saturday morning.

The Saturday morning meeting was called at 9:30 A.M. There were present: President Nourse, presiding, and Messrs. Bell, Brown, Crum, Graham, May, Mills, Slichter, Viner, Watkins, and Witte.

Dr. Nourse went through the rest of the items on the agenda after having first held a brief counsel with the members of the Nominating Committee on procedure in nominating the president. The following subjects were considered: the 1942 handbook questionnaire, the selection of committees to study time and place of our annual meetings as provided for in the minutes of the Executive Committee, December 30, and business meeting of December 31, 1941, the perennial subject of relationship between the Association and local and regional groups, the relation of the Association to the councils and other associations, and the question of "certification" of economists.

The appointment of Mr. Russell Weisman as our representative on the Committee on Local Arrangements for the Cleveland meeting was ratified. Tentatively approved for the time of the December meeting were Monday, Tuesday, and Wednesday, December 28, 29, and 30. The inadequacies of hotel facilities were discussed, and it was suggested that our

representative inquire if the rooms of the Chamber of Commerce Building or the Cleveland College would not be available and suitable for conference meetings of the character held on Sunday in New York. Tentatively approved, also, for future meetings were Chicago in 1943 and Atlantic City in 1944.

Appropriations for annual meeting expenses were authorized as follows: local arrangements, $200; program, for previews or prepresentation sessions, $350.

It was VOTED to appropriate up to $1,000 for a series of *ad hoc* conferences to be held in key centers, e.g., Baltimore, Philadelphia, New York, Chicago, tying up research activities of the government and universities, on condition that such an amount be matched from other sources, such as the Social Science Research Council. The purpose of this cooperation is to enable government agencies to farm out emergency problems to economists elsewhere whose services could thus be mobilized in the war effort and at the same time provide valuable material for the *Review* and for the annual program.

The Executive Committee and the Nominating Committee convened in joint session and as an electoral college effected the nomination of the president for 1943.

After luncheon, the afternoon was spent in the discussion of the program (while the Nominating Committee worked on the completion of their ticket).

2. Minutes of the third meeting of the 1942 Executive Committee:

The third meeting of the 1942 Executive Committee was held at the Hotel Washington, Washington, D.C., 6:30 P.M., January 5, 1943. There were present: President Nourse, presiding, and Messrs. Bell, Graham, Homan, Slichter, and, by invitation, Leiserson, Shoup, M. W. Watkins, and Wolfe.

The minutes of the second meeting of the 1942 Executive Committee were not read, since they had been previously distributed by mail.

The following reports were presented: the Secretary, Managing Editor, Treasurer, and Auditor. No actions were taken. The time was devoted to the discussion of the above reports.

The meeting was adjourned at 8:00 P.M. to permit members to attend the evening session of the program.

3. Minutes of the first meeting of the 1943 Executive Committee:

The first meeting of the 1943 Executive Committee was held at Hotel Washington, Washington, D.C., 1:00 P.M., January 7, 1943.

It was VOTED to approve the request of the Managing Editor for an additional $500 for the budget of the *Review* to meet contingent increases in printing costs.

It was VOTED to authorize an increase in Miss Gertrude Tait's salary.

It was VOTED to refund intact the sum advanced by the Social Science Research Council and the Secretary was instructed to express our appreciation of the Council's subsidy to promote the *ad hoc* sessions for our annual program. Only a relatively small sum was expended for this purpose—a sum which we can well afford to absorb. We may sometime in the future desire to revive this procedure in preparing our program while serving government agencies and will at that time feel freer to approach the Council for aid.

It was VOTED to reappoint Messrs. R. C. Osgood and C. C. Wells members of the Finance Committee for the year 1943.

The Secretary was instructed to write a letter of appreciation and thanks to Dr. Amos E. Taylor through whose good offices the Association was permitted to use the Auditorium of the United States Department of Commerce.

The sum of $50 was appropriated as an expression of the Association's appreciation to Miss Margaret Quill. The Secretary was directed to send a check for this amount to Miss Quill with the thanks of the Association for adding to her regular duties (as secretary to Dr. Nourse) the many incidental jobs to which she fell heir when the meetings at Cleveland were canceled and a program was organized in Washington.

The Secretary was instructed to draft and to send to Mrs. Davis Rich Dewey a letter of condolence. Dr. Davis Rich Dewey died on December 13, 1942. (See Business Meeting minutes.)

The prospects of a 1943 meeting were discussed.

Adjourned.

The past year has been an eventful one in the history of the Association. The Association has continued to grow in stature and influence, despite the impact of the war. But we are beginning to feel the effects of war restrictions

and activities. These are being reflected in the character and content of our annual programs and our publications.

Cancellation of the Cleveland meetings and election returns. In response to the request of the Office of Defense Transportation that civilian travel be curtailed and that federal agencies refuse leaves involving travel during the Christmas holiday season, the Executive Committee voted to cancel the annual meetings scheduled to be held in Cleveland, December 28-31. Similar action was taken by other associations planning to meet with us.

The uncertainties of the situation (in view of the fact that in July we had been encouraged to go ahead with our plans) prompted us to delay mailing the annual election ballots. When the ballots, together with notice of cancellation, were finally mailed on December 1, it was not foreseen that still further delay might be occasioned by the congestion of the mails. It is a matter of regret that a large number of ballots were not received until December 7, which was noted on our instructions as deadline date. Many ballots were returned after that date and all received before December 25 were counted; but undoubtedly many members considered it too late to return their ballots and as a result the total ballots received was relatively small. The situation has been explained to individuals who have complained, but the Secretary desires on this occasion to express a blanket apology.

Washington, D.C., meetings. By the irony of fate, we met in Washington, the place we had been avoiding these past two years because of war congestion. However, since few attended these meetings who would not in any case be in Washington, we were fully justified in salvaging such a substantial part of our program for the benefit of our large membership residing in this vicinity.

Election procedure. The changes permitted by the amendment to our charter and bylaws in nominating the president of the Association by an electoral college was implemented this year for the first time. At a joint meeting of the Nominating and Executive Committees in March, A. B. Wolfe was selected to appear on the ballot as nominee for election to the office of president for the year 1943. A space was left for members to write in an official choice and advantage was taken of this privilege (29 out of 765 ballots). It was gratifying to note a large number of suggestions for presidential nominees for 1944, for which space was provided at the bottom of the ballot.

Publications. The Managing Editor's report gives us information concerning the policy and program of the *Review*. We may note with gratification that neither the size nor the quality of this publication has suffered as a result of the impact of the war.

This year our members have received for their subscription not only the regular four issues of the *Review,* and an extra large edition of the *Proceedings,* but also a special supplement on the work of the TNEC and a *Directory*. The total list price of all these publications amounts to $9.75, and we may add that both the *Proceedings* and the TNEC supplement were greatly underpriced.

Directory of 1942. The volume contains descriptive material for 2,557 of the 3,645 names on our membership rolls. Special pains were taken to include as many members as possible, since this is the last edition for some years to come. We do, however, plan to run annual supplementary lists in

the *Proceedings*. Several significant features characterize the *Directory* or handbook of 1942. Wholesale shifts in the movement of economists having occurred in the past two years (since the last handbook was published), it was considered desirable to include both temporary and permanent addresses, from which we are able to tell not only where a member is at present but also where he came from and is likely to be "after the duration." The classification of members by fields of specialization is a result of several years of study and experiment. Though by no means perfected, we should find this personnel classification valuable. Comparison of the geographical classification in this issue and the 1940 handbook shows several marked shifts; e.g., our European members and subscribers have virtually disappeared whereas numbers in Latin America are becoming significant; the marked concentration of our members in and around Washington, D.C. New statistical and other information at the back of the volume should prove useful to members as well as to the officers of the Association. At the end of this report is a table showing size, number printed, and cost of proceedings and handbooks from 1930 to 1942. (See Exhibit I.)

Reprints of the proceedings of the fifty-fourth annual meeting and the information booklet, which we revise annually, were available to the officers and to all members interested.

The series of presidential photographs is being run in the *Review*. A limited number of copies are being made on heavy paper suitable for framing, and it is hoped that a sufficient number of our members will be interested in acquiring sets of these at cost price to make the undertaking worth while.

The placement section in the Review. The number of applications for positions continues to be small. Only six appear in the December number. One vacancy is announced—a very good position with apparently no takers.

The Blakiston project. The first volume of the series of reprints, *Readings in the Social Control of Industry,* published by the Blakiston Company, has appeared, and the second, on business cycles, is well under way. The articles in these volumes are selected by committees of the American Economic Association. A report of the Committee on the Blakiston Project, by Professor Homan, Chairman, is published below.

Membership. Despite the disturbances caused by war, our membership has not only held its own but has actually increased. Subscriptions have fallen off, due largely to the blockade of Europe, but a decline of 100 subscriptions is more than offset by a gain of 209 members. (See Exhibit II below.)

Wartime adjustments in the economics curriculum. Dr. L. E. Blauch, of the Office of Education, requested us early in the summer to appoint a committee to study and report on the wartime adjustments in the economics curriculum. The deadline set was so early that it passed before a committee could be constituted. Later in the year, interest in the subject was revived and at the request of President Nourse, the Secretary sent out a number of letters (see Exhibit III) to heads of departments in various representative institutions and to others who were known to have a special interest in this subject. Fragmentary responses do not prompt the Secretary to submit a report at this time. The prevailing sentiment of those who have answered

seems to favor retention of fundamental courses, with a few additions of specialized courses on the economics of war. Some organic changes are recommended which are not due to war influences.

A.C.L.S. and S.S.R.C. meetings. The Secretary attended the annual meeting of the A.C.L.S. this year as usual and also, for the first time, the annual meeting of the S.S.R.C. The summary reports of the activities of these Councils were not published for distribution. Members who are interested should refer to their annual reports which will soon be forthcoming.

Special appropriations for the annual program. Appropriations were made by the Executive Committee, and also a special sum was advanced by the S.S.R.C., in order to finance a collaborative program of initiating significant economic problems in government agencies and farming them out to economists outside of Washington. A series of preliminary meetings was held, chiefly in Washington, but the project did not prove as fruitful as anticipated. Only a small portion of the total sums appropriated was expended. The fund advanced so graciously by the S.S.R.C. will be returned intact.

Allied Social Science Associations. Due to the cancellation of the annual meetings, the secretarial group, of which your Secretary is chairman, did not meet. As shown in the Auditor's Report, certain funds of this organization are held in the Association's custody.

The following appointments were made by the President:

Nominating Committee
Frederick C. Mills, Chairman
Clare E. Griffin
John Ise
Donald M. Halley
William Adams Brown, Jr.
George W. Terborgh
Morris A. Copeland

Program Committee
Sumner H. Slichter
Fritz Machlup
John B. Condliffe
Robert A. Gordon

Committee on Elections
Leverett S. Lyon, Chairman
Simeon E. Leland
James Washington Bell

Auditor
David Himmelblau and Company

Committee on Local Arrangements
Russell Weisman

Committee on Economists in the Public Service
Morris A. Copeland, Chairman
Donald C. Riley, Secretary
Edward H. Chamberlain

Alvin H. Hansen
Robert D. Calkins
William J. Carson
O. C. Stine
William H. Stead

The use of the mailing list has been granted to the following:

Science Service
For special rate cards for members of the Association
American Council on Public Affairs
For *Notes Concerning Significant Books and Pamphlets about Economics*
United States Civil Service Commission
For recruiting economists
Frank D. Graham
For notice of his book

It is with regret that the names of the following persons have been removed from our active membership list, notice of their deaths having been received during the year:

James Bonar (Honorary Member)
Herman J. Brendel
Davis R. Dewey
Arthur Feiler
Charles H. Fernald
Robert F. Foerster
Walter E. Frew
Edward Gray
Gilbert T. Gustafson
John MacDuffie (Life Member)
Werner Sombart (Honorary Member)
Worthy P. Sterns
Wendell M. Strong
Sol M. Stroock
Mrs. Howard C. Warren

Respectfully submitted,
JAMES WASHINGTON BELL, *Secretary*

EXHIBIT I
PUBLICATION COSTS

	PROCEEDINGS			HANDBOOKS		
Year*	Number of Pages	Number of Copies	Cost	Number of Pages	Number of Copies	Cost
1930	222	4,300	$1,353.91			
1931	308	4,300	1,919.18	88	4,200	$ 589.54
1932	316	4,200	1,819.75			
1933	216	4,000	1,284.85	88	3,900	522.71
1934	232	3,700	1,192.91			
1935	248	4,000	1,347.88			
1936	360	4,200	2,037.90	58	4,100	454.36
1937	344	4,300	1,922.03			
1938	200	4,500	1,234.10	112	4,500	1,118.84†
1939	288	4,600	1,785.91			
1940	444	4,900	2,658.12	108	5,000	822.58
1941	479	5,200	3,294.45			
1942	548	5,400	3,909.79	208	5,500	1,775.72†

* This is the year of publication and pertains to the meeting of the preceding year. The figures are published in the subsequent year.
† "Who's who" volumes.

Exhibit II
Membership

	Total 12/13/41	Added	Removed	Gain or *Loss*	Total 12/12/42
Annual members	3,250	463*	264†	199	3,449‡‡
Junior members	124	81‡	83**	*2*	122‡‡
Family members	19	10	1	9	28
Complimentary members	13	8††	3	5	18
Life members	37	1	1	–	37
Honorary members	19	–	2	*2*	17
Subtotals	3,462	563	354	209	3,671
Subscribers	1,319	177	277	*100*	1,219
Totals	4,781	740	631	109	4,890

* Includes 67 junior members changed to annual.

† Resigned, 69; lack of address, 38; nonpayment of dues, 126; died, 12; changed to junior members, 19.

‡ Includes 19 annual members changed to junior.

** Includes 67 junior members changed to annual.

†† Includes 5 complimentary members who do not receive the publications of the Association.

‡‡ These two figures differ from the Auditor's Report as a result of a recount; the total of the two is the same, however.

Exhibit III
Wartime Adjustments in Economics Curriculum

December 17, 1942.

Dear Member:

This letter is being sent to a select list of members who are interested in the adaption of our economic curriculum to the war effort and in the broader problem of the relation of colleges and universities to the war effort.

Some time ago the United States Office of Education, Wartime Commission, asked that a series of studies be prepared on the adaption of "the content of various subjects in liberal college curricula . . . so far as that may seem advisable to aid more in the solution of the problems confronting the nation in wartime."

At the request of Dr. L. E. Blauch, Chairman of the Committee on College Curriculum Adjustments, our Association was asked to constitute a committee to study and report in the field of economics.

Since the reports were wanted at an early date and since it was not feasible to get a committee together, the matter was dropped at that time. The request has now been renewed, and President Nourse has asked me to correspond with a select list of our members whose interest in the teaching of economics is vital.

The United State Office of Education, Wartime Commission, submits the following statements on subjects to college teachers on adjusting their instruction to wartime needs and conditions:

1. It is not the purpose of this project to suggest to the colleges of arts and sciences that they offer a multitude of so-called "defense" courses. Rather, it is assumed that understanding of basic principles should be the principal goal of instruction in the colleges. It is also assumed, however, that much of the instruction can be directly aimed at meeting the needs of the nation for intelligent and capable persons who understand the forces operating in the world and can devote themselves intelligently and capably to the tasks that confront the nation in wartime. There appear to be three aspects of the present situation that should be considered in the project: (a) the military aspect, including service in the land, sea, and air forces; (b) the civilian aspect, including the industrial, the agricultural, the financial, the governmental, and other phases; and (c) the cultural aspect—understanding the issues and events.

2. It is expected that the suggestions in the reports prepared by the committees will deal principally with the wartime objectives and content of instruction, with some reference to methods and procedures of teaching to be employed by college teachers. However, any suggestions that will be directly helpful to teachers in their instruction may be included. Useful recent references and other materials of instruction should be listed.

Since the lowering of the draft age to include 18 and 19 year olders, the above request

has a broader application, important not only to teachers of economics but to institutions of higher learning. Many army and navy officials would like to take over the colleges, lock, stock, and barrel. College officials are, for the most part, anxious to keep control of their teaching programs and institutions.

In order to effect a compromise, special programs are being organized in some institutions for preinduction students or students who may be reassigned to colleges after being inducted. For the most part these courses are adapted from army and navy manuals covering work taught in their training schools. They are designed to give training in skills or specialized techniques fitting the students immediately for the jobs which men in the armed forces perform. In these programs courses in economics and other social subjects, such as government and history, are conspicuous by their absence.

We do not know what recommendations will be made to the Man Power Commission concerning college programs which would receive government approval and possibly government aid, but we may be asked for information, and in the interests of the war effort and with no thought of vested interests, I would like your reactions to the general problem of adjusting instruction in economics to wartime conditions and needs and, more specifically, I would like your judgment on the following questions:

1. Is the economics program as conducted at your institution suitable without modification to both peace and war conditions? If modified, how has it been altered or should it be altered?

2. What courses should be dropped for the duration and what courses should be retained?

3. What new courses, if any, should be introduced? Should they be beginning courses or advanced?

4. Should any economics courses be made required (a) for students in a general program; (b) for students in specialized preinduction courses?

5. Should any changes be adopted in the method or technique of instruction?

6. On the basis of your experience, what policy do you plan to adopt in the immediate future?

Following is a copy of a previous letter on "Wartime Changes in the Economics Curriculum" which did not prove very fruitful in prompting replies but which may, nevertheless, be suggestive:

The problem of adapting the economics curriculum to the changing scene is a continuous one, even in times of peace. With the impact of war, major problems arise. What adjustments, if any, should be made in the interests of the students, the teacher, and the war effort in general?

Some maintain that the whole economics curriculum should be altered to meet immediate wartime needs. Instead of Economics, they propose War Economics; instead of Public and Private Finance, War Finance; and other standard courses become Labor in the War Economy, Military Aspects of Transportation, Financing War Industries, World Resources and the War, Statistical Methods in War Industries, Economics of War and Reconstruction, etc. This type of change they would apply throughout the whole academic program. Along with change in content, extremists advocate shifts in methods and procedure to fit student life into a total war atmosphere, curricular and extracurricular. They may not suggest that students be put into uniform, live in barracks, get up at the sound of reveille and retire to taps, nor march to and from classes in formation, but discipline and regimentation should, to the extent compatible with intellectual development, accompany the program in preservice subjects (quite unlike the laissez faire educational atmosphere of self-expression which some modern educators advocate).

The other extreme is the education-as-usual view held by those who maintain that our economics courses deal with fundamental principles which are sound in times of peace and war alike. Except for highly specialized refinements (long since cut out as a result of the protracted depression), these courses are essential to a broad and liberal education for citizenship and for the best basis for any career, civilian or military. Our educational program has been adapted to a democratic and industrial society, which in total war can effectively be changed to an efficient war machine. They grant that economic principles work differently in a totalitarian society, that shifts in emphasis are needed in our standard courses, that new subject matter and illustrations are needed as well as continuous adjustment of our methods, techniques, and materials, but they deny that the old courses should be scrapped in favor of a multitude of new war courses.

A middle course undoubtedly must be found. Specifically, what do you recommend?

Sincerely yours,

JAMES WASHINGTON BELL, *Secretary*

P.S. Since the above was written the Army-Navy Specialized College Training Program has been announced. The program which they have adopted and the manner in which they have decided to use our colleges and universities do not make the present inquiry less pertinent, nor will your comments be less valued.

J.W.B.

December 18, 1942.

REPORT OF THE MANAGING EDITOR OF THE AMERICAN ECONOMIC REVIEW FOR THE YEAR ENDING DECEMBER, 1942

Expenses during 1942 by principal items were as follows:

	1942 Budget	1942	1941
Printing (paper, postage, reprints, etc.)	$ 7,500.00	$ 8,242.57	$ 7,384.59
Editorial	2,500.00	2,500.00	2,500.00
Clerical	3,200.00	3,129.25	2,799.13
Supplies	300.00	333.10	282.25
Contributors	1,500.00	1,625.25	1,535.25
	$15,000.00	$15,830.17	$14,501.22

The total expenditures during 1942, it will be seen from the above table, amounted to $830.17 more than the amount appropriated in the budget. The principal excess was in printing costs to the total amount of $742.57. The number of pages printed in 1942 was only 38 more than in 1941 so that the increase cannot be charged to that cost except to the small amount of perhaps $100.

The principal reasons for the higher costing book of approximately the same size were: (1) the increase of 5 per cent on direct printing costs, accounting for approximately $325; (2) the printing of 500 more books in 1942, accounting for about $100; (3) the use of more engravings, accounting for approximately another $90; (4) and miscellaneous items mainly connected with change of format and type, accounting for approximately $110.

Other costs in the aggregate ran $87.60 above the budget. This is accounted for by $125 above the budget in payments to contributors and $33.10 on account of supplies less a surplus of $70.75 on account of clerical expense.

The preceding figures are made up from the records in the Managing Editor's office and are subject to final audit from the Treasurer's office.

Not included in the above figures is $147.54 for the printing of the presidential portrait page which was not charged against the budget.

To the regular budget there was added last year an extra amount of $1,000 to cover publication of a supplement on the Temporary National Economic Committee. The actual cost of the supplement amounted to $1,098.34, divided as follows:

Printing and mailing	$ 946.24
Payments to contributors at regular *Review* rates	140.00
Reprints	12.10
	$1,098.34

This leaves a deficit of $98.34. The question of policy arose as to whether contributors to the supplement should be paid as other contributors to the *Review* are and the Managing Editor took the liberty of deciding that they should be, in spite of the fact that this caused the supplement to run somewhat over the appropriation.

For the year 1943, the following budget is recommended:

Printing (paper, reprints, postage, etc.)	$ 8,000.00
Editorial	2,500.00
Clerical	3,200.00
Supplies	300.00
Contributors	1,500.00
	$15,500.00

At this level the budget will support a volume only slightly smaller than in 1942 but will not permit any of the improvements in format which ought to be made. It is, however, probably desirable to defer important changes in format at least another year. The amount recommended is $500 more than the stated budget for 1942 and $330.17 less than the actual expenditure. If the income of the Association will not support expenditure on the *Review* at this level, the Managing Editor is willing to undertake keeping the size of the volume within whatever amount can be afforded and will exercise more care in this respect than he did in 1942.

During the year 1942, 28 leading articles, 17 communications, and 138 reviews of books were published. Leading articles, communications and reviews were contributed by 159 persons.

A change of emphasis in editorial policy is seen in the decline in the number of book reviews from 256 in 1941 to 138 in 1942. The reviews in 1942 were of much greater average length and it is felt that the quality was decidedly higher. The *Review* is, in fact, much in the debt of the reviewers who, being given more demanding responsibilities, have responded with correspondingly improved manuscripts. This policy has drawbacks, since it is necessary, unless by encroaching heavily on other departments, to omit reviews of many books or reduce the notices to short book notes. Editorial correspondence has on the whole supported the present policy. The Managing Editor is convinced of its wisdom, and thinks that few of the new books particularly worthy of reviews have failed to be assigned.

During the year the principal change made in the *Review* was the introduction of an entirely new type. Two minor changes were the separation of book reviews from the book list and the reduction of all matter except leading articles to 10 point or 8 point type. These changes, plus certain small changes connected with leading of pages and printing of footnotes, are thought to represent distinct improvements in readability and convenience.

In 1942 the following persons served as members of the Board of Editors: Professor E. A. Kincaid whose term expires in 1942 and Professor Mable Newcomer who filled out the last year of Professor H. M. Groves's term after his resignation; and Professor H. S. Ellis and Professor B. W. Lewis whose terms expire in 1943; and Professor A. G. Hart and Professor Dale Yoder whose terms expire in 1944. The Managing Editor wishes to express his great debt to the Board of Editors who have co-operated to the fullest degree both in the task of reading and criticizing manuscripts and in providing counsel and advice concerning matters of editorial policy.

Respectfully submitted,

PAUL T. HOMAN, *Managing Editor*

REPORT OF THE TREASURER OF THE ASSOCIATION FOR THE YEAR ENDING DECEMBER 12, 1942

The operations for the current year have been characterized by notably heavy expenditures on publications. Income from dues has continued to increase (up $1,043 from last year); interest and dividends from our investments have held up remarkably well (under $100 less than last year). We have experienced only slight increase in administrative costs ($266) but publication costs have increased considerably ($3,461.83) and income from publications has dropped $1,174.97 (subscriptions down $400, sale of copies down $300, and advertising down $450).

The increase in publication costs is divided amongst the following:

	1942	1941
Review and TNEC supplement	$ 9,114.46	$ 7,543.23
Proceedings	3,909.79	3,294.45
Directory	1,775.72	
	$14,799.97	$10,837.68
	10,837.68	
	$ 3,962.29	

Larger issues and editions of the *Review* and the *Proceedings* and increased printing costs should also be taken into account.

Compared to last year's operating results, total expenses increased $4,902.86 and income increased $593.53. Expenses this year of $21,828.70 compared to income of $20,802.08 leave us with a net loss of $1,026.62. Last year we had a net income of $3,282.71. Thus we have a difference of $4,309.33 which, as explained above, is largely accounted for by increased publication costs.

No attempt has been made to reconcile the expenses reported in the Managing Editor's report with figures found in the Auditor's Report. The differences are accountable in part by the calendar and fiscal years.

The accompanying tables show changes in our investment account from 1925 to date, income from stocks and bonds, and the rate of return. The Finance Committee recommended several shifts in our holdings and $3,000 government bonds, series G, were added to our portfolio. We put $2,657.10 new money into the account; took a small loss on the sale of Erie bonds. The market value of our holdings as of December 2, 1942, as reported in the Report of the Finance Committee was $58,211.88 and at a later date, the Auditor's valuation was stated at $60,957.08. We derived an income of $3,493.66 which was put into the general fund for Association purposes. This income represents a yield of 5.28 per cent on the cost of securities and 5.73 per cent on present market value.

Respectfully submitted,

James Washington Bell, *Treasurer*

INVESTMENT PORTFOLIO

Year	At Par	Cost			Market
	Bonds	Bonds	Stocks	Total	Stocks and Bonds
1925	$25,000	$24,661.75		$24,661.75	
1926	27,000	26,623.25		26,623.25	
1927	29,000	28,688.45		28,688.45	
1928	29,000	28,633.45		28,633.45	
1929	31,000	30,569.48		30,569.48	
1930	31,000	32,439.48		32,439.48	$32,635.40
1931	39,500	39,134.48		39,134.48	32,307.44
1932	40,500	41,134.48		41,134.48	33,239.70
1933	33,500	32,962.48	$ 3,954.23	36,916.71	31,522.50
1934	31,500	30,989.48	3,954.23	34,943.71	34,714.00
1935	16,000	15,280.48	28,114.50	43,394.98	50,338.72
1936	17,000	16,260.13	33,712.57	49,972.70	62,991.00
1937	20,000	19,160.91	37,399.20	56,560.11	52,064.75
1938	22,000	20,180.95	38,302.20	58,483.15	58,598.88
1939	22,000	20,039.57	41,155.95	61,195.52	61,529.38
1940	25,000	22,519.80	41,155.95	63,675.75	60,553.88
1941	25,000	22,439.81	41,155.95	63,595.76	58,606.11
1942	27,000	24,651.12	41,556.06	66,207.18	58,211.88

RETURN ON INVESTMENTS

	Bonds	Stocks	Total	Rate of Return
1925	$1,350.00		$1,350.00*	
1926	1,410.00		1,410.00*	
1927	1,524.70		1,524.70†	
1928	1,642.77		1,642.77†	
1929	1,575.44		1,575.44†	
1930	1,695.21		1,695.21	5.22%
1931	1,886.81		1,886.81	4.82
1932	2,014.36		2,014.36	4.89
1933	1,679.49	$ 108.57	1,789.06	4.84
1934	1,593.13	218.07	1,811.20	5.18
1935	1,022.96	680.70	1,703.66	3.92
1936	801.77	1,597.63	2,399.40	5.00
1937	884.87	2,689.62	3,574.49	6.31
1938	928.04	2,063.02	2,991.06	5.11
1939	978.79	1,781.52	2,760.31	4.51
1940	1,037.56	2,182.46	3,220.02	5.06
1941	1,088.97	2,497.35	3,586.32	5.64
1942	1,306.49	2,186.17	3,492.66	5.28

* Estimated income for year.
† Certificate of deposit interest included.

REPORT OF THE FINANCE COMMITTEE

The following changes in our investment account have been effected since our last annual report:

Purchases—

Paramount Pictures Inc., 4% bonds, due 1956, principal amount $2,000	$2,000.00
United States Defense Bonds, series G, 2½%, 1954	3,000.00
St. Louis and Iron Mountain Southern Railway, 4% bonds, due 1933, principal amount $2,000	1,535.00
	$6,535.00

Sales—

Florida and East Coast Railway, 4½%, due 1959, principal amount $1,000	$ 759.50
Gary Electric and Gas Co., 5%, due 1944, principal amount $2,000	2,000.00
Southern Illinois and Missouri Bridge Co., 1st mortgage, 4%, due 1951, principal amount $1,000	804.50
Erie Railroad Co.—	
$150 scrip certificate 4%	90.40
$150 scrip certificate 4½% } $75 scrip certificate 4% }	207.97
40/100 shares preferred stock	14.80
4/40 shares common stock	.73
	$3,877.90

Listed below, as of December 2, 1942, are our security holdings, at cost and at market value. Comparative prices for last year are also given.

Bonds

Par Value		*Int. Rate*	*Due*	*Cost*	*Value Market or Last Sale 12/6/41*	*12/2/42*
$1,000	Canada, Dominion of, Ref. Loan.	5	1943	$ 802.85	$ 850.00	$ 890.00
2,000	Central Illinois Electric and Gas Co., 1st Mtg.	3¾	1964	2,010.00	2,112.50	2,102.50
3,000	Chicago, Terre Haute and South-eastern Railway Co., 1st and Ref.	5	1960	2,012.12	1,920.00	1,860.00
1,000	Erie Railroad Co., 1st Consol. Mtg.	4	1959	883.26		
2,000	Grand Trunk Western Railways Co., 1st Mtg. 50-year	4	1950	1,855.45	1,720.00	1,790.00
1,000	Interlake Iron Corp., Convert. Deb.	4	1947	980.63	1,010.00	1,035.00
2,000	Nevada California Electric Corp., 1st Mtg.	5	1956	1,895.40	1,940.00	1,930.00
2,000	Paramount Pictures, Deb.	4	1956	2,000.00		2,015.00
2,000	Pennsylvania Railroad Co., Deb.	4½	1970	1,913.03	1,810.00	1,785.00
1,000	Pennsylvania Railroad Co., Gen. Mtg. Series "D"	4¼	1981	986.50	1,005.00	955.00
2,000	Shawinigan Water and Power Co., 1st Mtg.	4½	1967	1,801.15	1,897.50	2,022.50
2,000	St. Louis and Iron Mountain Southern Ry., 1st Mtg.	4	1933	1,535.00		
2,000	Southern Railway Co., 1st Consol. Mtg.	5	1994	2,070.40	1,810.00	1,830.00
3,000	United States Defense Bonds Series "G"	2½	1954	3,000.00		3,000.00
1,000	United Stockyards Corp. Col. Trust Series "A"	4¼	1951	905.33	980.00	940.00
				$24,651.12	$17,055.00	$22,155.00

STOCKS

Number of Shares of Preferred Stock	Cost	Value Market or 12/6/41	Value Last Sale 12/2/42
15 Chesapeake and Ohio Railroad Co., 4%, "A"	$ 1,328.24	$ 1,468.12	$ 1,425.00
1 Erie Railroad Co., 5%, "A"	120.98		36.00
14 Glidden Co.	735.00	581.00	537.25
10 Household Finance Corp., 5%	903.00	1,060.00	1,055.00
25 International Harvester Co.	3,686.63	4,075.00	4,088.00
Number of Shares of Common Stock			
25 Chesapeake and Ohio Railroad Co.	1,309.07	884.37	878.13
55 Commonwealth Edison Co.	1,525.51	1,244.37	1,168.75
20 Erie Railroad Co.	279.13		155.00
50 General American Transportation Corp.	3,084.30	2,350.00	1,825.00
100 General Electric Co.	2,738.19	2,700.00	2,900.00
50 General Motors Corp.	2,057.47	1,837.50	2,055.25
58 Glidden Co.	1,635.72	812.00	841.00
50 Kroger Grocery and Baking Co.	1,297.22	1,425.00	1,300.00
25 Liggett and Myers Co., "B"	2,018.13	1,831.25	1,500.00
50 Link-Belt Co.	2,524.15	1,750.00	1,687.50
50 Mesta Machine Co.	2,007.37	1,525.00	1,312.50
50 J. C. Penney Co.	2,878.28	4,043.75	3,775.00
50 Procter and Gamble Co.	2,459.72	2,675.00	2,462.50
50 Standard Brands, Inc.	888.15	237.50	206.25
50 Standard Oil of California	2,097.27	1,225.00	1,312.50
50 Union Carbide and Carbon Corp.	2,867.88	3,700.00	3,806.25
100 Wayne Pump Co.	3,114.65	1,325.00	1,750.00
Total Stock	$41,556.06	$36,749.86	$36,056.88
Total Bonds	24,651.12	17,055.00	22,155.00
Total Security Holdings	$66,207.18	$53,804.86	$58,211.88

The Auditor's Report contains an account of the particulars of these transactions and an analysis of the exchanges involved in the case of the Erie and Jersey Railroad and Erie Railroad bonds. It is pointed out there that securities costing $4,079.84 were sold for $3,877.90, resulting in a loss of $201.94.

The composition of the account has not been materially changed as the result of sales, purchases, and exchanges. The small net additions have only slightly increased the proportion of bonds held and the ratios now stand approximately 60 per cent stock and 40 per cent bonds.

Market values improved somewhat this year compared to last (see Treasurer's Report). Income from interest and dividends remains highly favorable both on cost and on market bases.

The Finance Committee has held few formal meetings this year but the account has been analyzed by competent staffs on several occasions.

Respectfully submitted,

ROY C. OSGOOD, *Chairman*
CHARLES C. WELLS
JAMES WASHINGTON BELL

REPORT OF THE AUDITOR
December 30, 1942

Executive Committee,
American Economic Association,
Evanston, Illinois.

DEAR SIRS:

We examined the balance sheet of the American Economic Association as of December 12, 1942, and the statement of income and expenses for the period from December 13, 1941, to December 12, 1942; we also reviewed the accounting procedures of the Association and, without making a detailed audit of the transactions, examined or tested accounting records of the Association by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Comments regarding our examination are contained in subsequent pages of this report together with the following exhibits:

Balance Sheet—December 12, 1942	Exhibit 1
Statement of income and expenses for the period from December 13, 1941, to December 12, 1942	Exhibit 2

Results from Operations

Net loss for the fiscal year ended December 12, 1942, was $1,026.62 compared with a net income of $3,282.71 for the preceding fiscal year as shown in the following summary:

Particulars	Year Ended Dec. 13, 1941	Year Ended Dec. 12, 1942	Increase *Decrease*
Income:			
Dues	$16,569.18	$17,612.16	$1,042.98
Interest and dividends on investments	3,488.46	3,391.36	*97.10*
Other sources (net)	150.91	*201.44*	*352.35*
Total income	$20,208.55	$20,802.08	$ 593.53
Expenses:			
Administrative and other operating expenses	$ 7,494.18	$ 7,760.24	$ 266.06
Publication expenses	19,040.04	22,501.87	3,461.83
Publication income	*9,608.38*	*8,433.41*	1,174.97
Total expenses	$16,925.84	$21,828.70	$4,902.86
Net income	$ 3,282.71	*$ 1,026.62*	*$4,309.33*

The increase in income from dues reflects the increase in the membership of the Association during the period under review. Membership at December 13, 1941, and December 12, 1942, as reported by the Secretary, was as follows:

Classification	Number of Members Dec. 13, 1941	Dec. 12, 1942
Members—		
Regular	3,250	3,457
Junior	124	114
Family	19	28
Life	37	37
Honorary	19	17
Complimentary	13	18
Totals	3,462	3,671

Interest on bonds owned was accounted for and dividends received on stocks were compared with amounts reported in published records of dividends paid. During the year securities costing $4,079.84 were sold for $3,877.90 resulting in a loss of $201.94.

Administrative and other operating expenses detailed in Exhibit 2 aggregate $7,760.24; similar expenses for the preceding year were $7,494.18.

Net publication expense, as shown in the following summary, amounted to $14,068.46 for the current period as compared with $9,431.66 for the preceding year:

Particulars	Fiscal Year Ended Dec. 13, 1941	Dec. 12, 1942	*Review* Budgetary Estimates for 1942
Expenses:			
Printing of			
Review	$ 7,543.23	$ 9,114.46	$ 7,500.00
Proceedings	3,294.45	3,909.79	
Handbook		1,775.72	
Editor's honorarium	2,500.00	2,500.00	2,500.00
Payments to contributors	1,530.00	1,760.00	1,500.00
Editorial clerical salaries	2,698.03	2,986.25	3,200.00
Plates of past presidents' photographs	403.82		
Expenses of moving editor's office	188.24		
Other costs and expenses	882.27	455.65	300.00
Total expenses	$19,040.04	$22,501.87	$15,000.00
Less—Income:			
Subscriptions, other than from members	$ 6,311.83	$ 5,899.15	
Sales of copies	1,245.07	932.28	
Advertising	2,051.48	1,601.98	
Total income	$ 9,608.38	$ 8,433.41	
Net publication expense	$ 9,431.66	$14,068.46	

The December issue of the *Review* had not been printed at the time of our audit. Printing expenses and cost of paper for this issue, as estimated by George Banta Publishing Company, are included above. *Review* printing expenses increased as a result of (a) an increase in the number of copies printed each quarter and (b) printing 5,800 copies of a 140 page June supplement. A handbook was published in September, 1942; there was no similar expense in 1941. Net publication expense was further increased be-

cause of a decrease in the number of subscribers and a decrease in advertising space sold.

Financial Condition

Condensed balance sheets of the Association at December 13, 1941, and December 12, 1942, are compared below:

Assets	Dec. 13, 1941	Dec. 12, 1942	Increase *Decrease*
Cash in banks	$ 2,665.33	$ 3,555.73	$ 890.40
Receivables, net	1,686.02	944.17	*741.85*
Inventories	2,533.51	568.66	*1,964.85*
Furniture, fixtures, etc., net	481.18	679.89	198.71
Investments, at cost—			
Bonds	22,439.81	24,651.12	2,211.31
Stocks	41,155.95	41,556.06	400.11
	$70,961.80	$71,955.63	$ 993.83

Liabilities	Dec. 13, 1941	Dec. 12, 1942	Increase *Decrease*
Accounts payable	$ 1,520.28	$ 2,429.22	$ 908.94
Social Science Research Council		750.00	750.00
Allied Social Science Associations		835.21	835.21
Unearned income	3,408.60	3,151.92	*256.68*
Membership extension fund	2,633.23	2,137.27	*495.96*
Fund for proposed secretariat	35.00	35.00	
Life memberships	3,400.00	3,400.00	
Surplus—			
Balance at beginning of period	56,381.98	60,243.63	3,861.65
Net income or *loss* for period	3,282.71	*1,026.62*	*4,309.33*
Transfers from life memberships	300.00		*300.00*
	$70,961.80	$71,955.63	$ 993.83

Cash in banks was satisfactorily reconciled with balances confirmed directly to us by the depositories.

We did not confirm the receivables of the Association by correspondence with the debtors. In view of the Association's past experience the reserve for doubtful accounts appears to be adequate to cover losses.

The inventories of the Association include 402 copies of *Economic Essays* which were reduced to a nominal value of $1.00.

Furniture, fixtures and bound periodicals include the additions for the years 1931 to 1942. Depreciation reserve represents 8% on balances at beginning of year plus 4% on additions during the year.

Erie Railroad Co. bonds were exchanged during the year as follows:

Particulars		Cost
Exchanged:		
Erie Railroad Co., Ref. and Imp. Mortgage, 5%, due 1975, principal amount $1,000	$932.50	
Erie and Jersey Railroad, First Mortgage Bond, 6% due 1955, principal amount $1,000	885.53	
Total		$1,818.03

Received:

Erie Railroad Co.—		
First Consolidated Mortgage, 4%, due 1959, principal amount $1,000	$883.26	
First Consolidated Mortgage, 4% (Scrip certificate $150)	132.49	
First Consolidated Mortgage, 4% (Scrip certificate $75)	242.32	
General Mortgage, 4½% (Scrip certificate $150)	265.52	
5% Preferred Stock, 1 4/100 shares	169.37	
Common Stock, 20 4/40 shares	281.33	
Total		1,974.29
Balance represents interest received on exchange		$ 156.26

The following securities were purchased and sold during the period under review:

Particulars	Purchase or Selling price
Purchases—	
Paramount Pictures, Inc., 4% bonds, due 1956, principal amount $2,000	$2,000.00
United States Defense Bonds, series G	3,000.00
St. Louis and Iron Mountain Southern Railway, 4% bonds, due 1933, principal amount $2,000	1,535.00
	$6,535.00
Sales—	
Florida and East Coast Railway, 4½%, due 1959, principal amount $1,000	$ 759.50
Gary Electric and Gas Co., 5%, due 1944, principal amount $2,000	2,000.00
Southern Illinois and Missouri Bridge Co., 1st mortgage, 4%, due 1951, principal amount $1,000	804.50
Erie Railroad Co.—	
$150 scrip certificate 4%	90.40
$150 scrip certificate 4½% $75 scrip certificate 4½	207.97
40/100 shares preferred stock	14.80
4/40 shares common stock	.73
	$3,877.90

Securities were examined at the vaults of State Bank and Trust Company, Evanston, on December 22, 1942.

Insofar as we were able to ascertain all liabilities of the Association at December 13, 1942, are reflected in the accompanying balance sheet. The $750 due Social Science Research Council represents an advance which is to be returned. During the year the Secretary of the American Economic Association became secretary of Allied Social Science Associations and transactions of latter association are recorded on American Economic Association's records. Balance due Allied Social Science Associations at December 12, 1942, was $835.21. We did not confirm the liabilities of the Association by correspondence with the creditors.

We express our appreciation of the courtesies and co-operation extended to our representatives during the course of the examination.

Very truly yours,

DAVID HIMMELBLAU CO.

EXHIBIT 1

American Economic Association
Balance Sheet—December 12, 1942

Assets

Current Assets:			
Cash in bank—			
State Bank and Trust Company, Evanston	$ 1,604.99		
Madison-Crawford National Bank, Chicago	1,950.74	$ 3,555.73	
Receivables—			
Interest accrued on bonds	$ 255.43		
Membership dues	279.00		
Review advertising	468.74		
Publication sales	46.46		
Sundry	39.47		
Total receivables	$ 1,089.10		
Less—Reserve for doubtful accounts	144.93	944.17	
Inventories—			
Paper stock	$ 332.96		
Economic Essays at nominal value	1.00		
Stamped envelopes	234.70	568.66	
Total currents assets			$ 5,068.56
Investments, at Cost:			
Bonds (market value $24,651.25)		$24,651.12	
Stocks (market value $36,305.83)		41,556.06	66,207.18
Furniture, Fixtures and Bound Periodicals			
(less reserve for depreciation)			679.89
			$71,955.63

Liabilities, Funds and Surplus

Current Liabilities:			
Accounts payable			$ 2,429.22
Allied Social Science Associations			835.21
Social Science Research Council			750.00
			$ 4,014.43
Unearned Income:			
Membership dues		$ 550.00	
Subscriptions		2,601.92	3,151.92
Membership Extension Fund			2,137.27
Fund for Proposed Permanent Secretariat			35.00
Life Memberships and Surplus:			
Life memberships		$ 3,400.00	
Unappropriated surplus—			
Balance December 13, 1941	$59,964.69		
Undepreciated asset restored	278.94		
Adjusted balance December 13, 1941	$60,243.63		
Net loss for period from December 13, 1941 to December 12, 1942 (Exhibit 2)	*1,026.62*	59,217.01	62,617.01
			$71,955.63

EXHIBIT 2

AMERICAN ECONOMIC ASSOCIATION

STATEMENT OF INCOME AND EXPENSES

PERIOD FROM DECEMBER 13, 1941, TO DECEMBER 12, 1942

Particulars				*Amount*
INCOME:				
Dues—				
Regular, junior and family memberships			$17,434.66	
Subscribing and contributing memberships ...			177.50	$17,612.16
Other sources—				
Investments—				
Interest on bonds		$ 1,306.49		
Dividends		2,186.17		
		$ 3,492.66		
Less—Custodian's fee		101.30	$ 3,391.36	
Net *loss* on sales of securities			*201.94*	
Sundry			.50	3,189.92
Total income				$20,802.08
EXPENSES:				
Administrative and other operating expenses—				
Secretary's salary		$ 1,500.00		
Office salaries		3,513.11		
Postage		473.06		
Stationery and supplies		304.86		
Telephone and telegraph		56.59		
Insurance		200.00		
Exchange on checks		26.81		
Provision for depreciation		81.76		
Annual meeting		221.75		
Executive committee expenses		453.14		
Other committee expenses		209.53		
American Council of Learned Societies—dues		75.00		
Economic Essays reduced to nominal value of $1		371.72		
Program expenditures for 1942 meetings		145.47		
Miscellaneous		127.44	$ 7,760.24	
Publication expenses—				
Printing of—				
Review		$ 9,114.46		
Proceedings		3,909.79		
Handbook		1,775.72		
Editor's honorarium		2,500.00		
Payments to contributors		1,760.00		
Editorial clerical salaries		2,986.25		
Editorial supplies and expenses		373.23		
Editor's traveling expenses		14.50		
Sundry publication expenses		67.92		
Total publication expenses		$22,501.87		
Less—Publication income—				
Subscriptions, other than members	$5,899.15			
Sale of copies	932.28			
Advertising	1,601.98	8,433.41	14,068.46	
Total expenses				21,828.70
Net loss (Exhibit 1)				*$ 1,026.62*

REPORT OF THE COMMITTEE ON THE BLAKISTON PROJECT FOR THE REPRINTING OF ECONOMIC ARTICLES

During the course of the year the affairs of the committee have been carried on entirely by the chairman. The first volume of reprinted articles, *Readings in the Social Control of Industry,* was published during the autumn of 1942 under the editorship of Professor E. M. Hoover, Jr., assisted on the selection committee by Professor Joel Dean. The second volume, *Selected Readings on Business Cycle Theory,* under the editorship of Professor Gottfried Haberler, has proceeded to the point where the proposed contents have been selected and permissions to republish are being secured. Associated with Professor Haberler on the selection committee were Professors J. W. Angell, R. M. Bissell, H. S. Ellis, Simon Kuznets, and A. W. Marget.

The thanks of the Association are due to chairmen and members of these selection committees for the large amount of time and thought which they have devoted to their duties. Acknowledgment of thanks must also be made to Mr. Horace G. White, Jr., in drawing up the extensive bibliographies for both the volume which has been issued and the one which is to be published.

A file of suggestions for future volumes has been collected by the chairman but no definite action has yet been taken for making a final selection of the subject of the next volume or a committee on selection.

With this report the chairman of the committee wishes to tender his resignation and asks that the Executive Committee appoint a successor to carry on this work. Since Professor Douglas Brown some months ago requested to be relieved from any active part of the work of the committee because of the pressure of other duties, the Executive Committee should also appoint a second member to take his place.

PAUL T. HOMAN, *Chairman*

PUBLICATIONS

OF THE

AMERICAN ECONOMIC ASSOCIATION

1943

FIRST SERIES

Numbers starred are sold only with the sets; the supply of those double starred is exhausted. For information apply to the Secretary.

Volume I, 1886

		Price in paper
1.	Report of Organization of the American Economic Association. Pp. 46.	$ .50
2–3.	** Relation of the Modern Municipality to the Gas Supply. By E. J. James. Pp. 66.	.75
4.	Co-operation in a Western City. By Albert Shaw. Pp. 106.	.75
5.	**Co-operation in New England. By E. W. Bemis. Pp. 136.	.75
6.	** Relation of the State to Industrial Action. By H. C. Adams. Pp. 85.	.75

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1.	Three Phases of Co-operation in the West. By Amos G. Warner. Pp. 119.	.75
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3.	The Railway Question. By Edmund J. James. Pp. 68.	.75
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5.	** Mediæval Guilds of England. By E. R. A. Seligman. Pp. 113.	.75
6.	Relation of Modern Municipalities to Quasi-Public Works. By H. C. Adams and others. Pp. 87.	.75

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1.	Statistics in College, by C. D. Wright; Sociology and Political Economy, by F. H. Giddings; The Legal-Tender Decisions, by E. J. James. Pp. 80.	.75
2.	Capital and Its Earnings. By John B. Clark. Pp. 69.	.75
3.	The Manual Laboring Class, by F. A. Walker; Mine Labor in the Hocking Valley, by E. W. Bemis; Report of the Second Annual Meeting. Pp. 86.	.75
4-5.	** Statistics and Economics. By Richmond Mayo-Smith. Pp. 127.	1.00
6.	The Stability of Prices. By Simon N. Patten. Pp. 64.	.75

Volume IV, 1889

1. Contributions to the Wages Question: The Theory of Wages, by Stuart Wood; Possibility of a Scientific Law of Wages, by J. B. Clark. Pp. 69. $ .75
2. Socialism in England. By Sidney Webb. Pp. 73. .75
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Volume V, 1890

1. The Industrial Transition in Japan. By Yeijiro Ono. Pp. 122. 1.00
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5. History of the New York Property Tax. By J. C. Schwab. Pp. 108. 1.00
6. Educational Value of Political Economy. By S. N. Patten. Pp. 36. .75

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1-2. Fourth Annual Meeting: Reports, Papers, Discussions. 1.00
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6. The Reciprocity Treaty with Canada of 1854. By F. E. Haynes. Pp. 70. .75

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Sixth Annual Meeting: Handbook and Report. Pp. 73. .50
1-2. ** Progressive Taxation in Theory and Practice. By Edwin R. A. Seligman. Pp. 222. *(See 1908, No. 4.)* 1.00
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5-6. Papers on Labor Problems. By J. B. Clark, C. D. Wright, D. R. Dewey, A. T. Hadley, and J. G. Brooks. Pp. 94. .75

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1-3. ** The Canadian Banking System, 1817-1890. By R. M. Breckenridge. Pp. 478. 1.50
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2.	The Adjustment of Wages to Efficiency. Three Papers: Gain Sharing, by H. R. Towne; The Premium Plan, by F. A. Halsey; A Piece-Rate System, by F. W. Taylor. Pp. 83.	.50
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	Ninth Annual Meeting: Handbook and Report. Pp. 162.	.50
1.	Economics and Jurisprudence. By Henry C. Adams. Pp. 48.	.50
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Note—During 1896–1899 the Association issued its publication in two series, viz., the bimonthly Economic Studies, *and the "New Series" of larger monographs printed at irregular intervals. In 1900 it reverted to the policy of issuing its monographs, now called the "Third Series" of the publications at quarterly intervals.*

Price per volume, $4.00.

Volume I, 1900

1.	Twelfth Annual Meeting: Papers on Economic Theory and Political Morality; Trusts; Railroad Problems; Public Finance; Consumers' League; Twelfth Census. Pp. 186.	$1.00
2.	** The End of Villeinage in England. By T. W. Page. Pp. 99.	1.00
3.	Essays in Colonial Finance. By Members of the Association. Pp. 303.	1.50
4.	** Currency and Banking in the Province of Massachusetts Bay. By A. McF. Davis. Part I: Currency. Pp. 464 + 91 photogravure plates.	1.75

Volume II, 1901

1.	** Thirteenth Annual Meeting: Papers on Competition; Commercial Education; Economic Theory; Taxation of Quasi-public Corporations; Municipal Accounts. Pp. 300.	1.25
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4.	Administration of City Finances in the U.S. By F. R. Clow. Pp. 144.	1.00

Volume III, 1902

1.	Fourteenth Annual Meeting: Papers on International Trade; Industrial Policy; Public Finance; Protective Tariff; Negro Problem; Arbitration of Labor Disputes in Coal Mining Industry; Porto Rican Finance; Economic History. Pp. 400.	1.50
2.	** The Negro in Africa and America. By Joseph A. Tillinghast. Pp. 240.	1.25
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1.	Part I—Papers and Discussions on Southern Agricultural and Industrial Problems; Social Aspects of Economic Law; Relations between Rent and Interest. Pp. 240.	1.00
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Volume VI, 1905

	Seventeenth Annual Meeting. Papers and Proceedings published in two parts.	
1.	Part I—Papers and Discussions on the Doctrine of Free Trade; Theory of Prices; Theory of Money; Open Shop or Closed Shop. Pp. 226.	1.00
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2.	** Handbook of the Association, 1910. Pp. 79.	.25
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Published quarterly in 1908, 1909, and 1910, and containing personal notes, news of the economic world, announcements of special lines of investigation, and a classified and annotated bibliography of the current books and articles on economic subjects.

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Volume II, 1909. Four numbers.	$2.00; each .60
Volume III, 1910. Four numbers.	$2.00; each .60

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Subscriptions by nonmembers, libraries, etc., $5.00 a year

Volume I, 1911

The American Economic Review, **March, June, September, and December; each, $1.00
Twenty-third Annual Meeting:
Papers and Discussions on the Significance of a Comprehensive System of Education; Money and Prices; The Ricardo Centenary; Accounting; Canals and Railways; Population and Immigration; Labor Legislation; Taxation; A Definition of Socialism; Competition in the Fur Trade. Pp. 388. 1.50
** Handbook of the Association, 1911. .25

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Supplement.—Handbook of the Association, 1916. .75

Volume VII, 1917

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of the War; Loans and Taxes in War Finance; Problems of Population after the War; Some Phases of the Minimum Wage. Pp. 275. $1.25
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Volume VIII, 1918

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Volume X, 1920

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nomics; Law and Economics; Price Stabilization; London and the Trade Cycle; Federal Reserve Policy and Brokers' Loans; Central Planning of Production in Soviet Russia; International Differences in the Labor Movement; Tariff Making in the United States; Economic History; Locality Distribution of Industries; Regulation of Electric Light and Power Utilities; An Inductive Study of Publicly Owned and Operated vs. Privately Owned but Regulated Public Utilities; Regulation of the Common Carrier; Commercial Motor Vehicle and the Public. Pp. 284. $1.25

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Volume XXII, 1932

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** Supplement No. 2.—Handbook of the Association, 1936. 2.00

Volume XXVII, 1937

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Arising from Social Security Taxes and Reserves; The Situation of Gold Today in Relation to World Currencies; Mechanisms and Objectives for the Control of Exchange; The Adequacy of Existing Currency Mechanisms Under Varying Circumstances; Present Situation of Inadequate Housing; Financing of Housing; Some Economic Implications of Modern Housing; Managed Currency; A Critique of Federal Personnel Policies as Applied to Professional Social Science Positions; New Opportunities for Economists and Statisticians in Federal Employment; Government Employment as a Professional Career in Economics; Indicia of Recovery; Housing and Housing Research; Distribution of Purchasing Power and Business Fluctuations; Forecast of Power Development; The Possibility of a Scientific Electrical Rate System; Co-ordination of Public and Private Power Interests in European Countries; Recent Developments in the Theory of Speculation; Control of Speculation under the Securities Exchange Act; Unorganized Speculation: the Possibility of Control. Pp. 333. $1.25

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Supplement No. 2.—Handbook of the Association, 1938. 2.50

Volume XXIX, 1939

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Supplement No. 2.—Handbook of the Association, 1940. $2.00
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Fifty-third Annual Meeting (December, 1940):
Papers and Proceedings. Gold and the Monetary System; Economic Research; Federal Budget; Economic Consequences of Deficit Financing; Teaching of Economics; Agricultural Situation; A Review of Fundamental Factors, an Evaluation of Public Measures, and an Appraisal of Prospects; Status and Role of Private Investment in the American Economy, 1940; Unemployment in the United States, 1930-50; Economic Consequences of War Since 1790; Some Economic Problems of War, Defense, and Postwar Reconstruction; United States in the World Economy, 1940; International Economic Relations and Problems of Commercial Policy; Price Policy and Price Behavior. Pp. 458. 1.25

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(August 1, 1942, to January 16, 1943)

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18. Social insurance; relief; pensions; public welfare
19. Consumption; income distribution; cooperation
20. Population; migration; vital statistics

For descriptive subheads under main group titles, see editorial note, pages 127-131 of the 1942 Directory.

ABBOTT, Edith, Univ. of Chicago, Faculty Exch., Chicago, Ill. (1905) **A** Univ. of Chicago, School of Soc. Serv. Admin., dean, TA. **B** A.B., 1901, Litt.D., 1917, Nebraska; Ph.D., 1905, Chicago; LL.D., 1924, Beloit, 1938, Oberlin, 1942, Tulane. **C** Wages of unskilled labor in the United States (J.P.E.). **D** 18, 2. **E** History of social welfare. **F** Public assistance (1940), Tenements of Chicago (1936) (Univ. of Chicago Press); Women in industry (Appleton, 1910); editor, Soc. Sci. Rev. **G** W.

AGISM, Philip, 4312 Kaywood Dr.; Mt. Rainier, Md. (1942) **A OPA, asst. econ., R. B** B.S., 1941, Rutgers Univ. **D** 11, 12, 4.

ANROD, Charles William, 5060 N. Winthrop Ave., Chicago, Ill. (1942) **A** Labor Bur. of Middle West, Chicago, res. asst., R. **B** Dr.jur.utriusque, 1920, Heidelberg Univ. **C** Economic and social position of a married woman under the German and Swiss legal system. **D** 17, 2, 1. **F** "The training of postgraduates in labor legislation," Deutsche Juristenzeitung, 1930; "Relations between the ordinary courts and the special agencies for unemployment insurance," Reichsarbeitsblatt, Part II, 1932.

ARKUS, Pauline J., 2000 S St., N.W., Washington, D.C. (1942)

ARNDT, Ernst H. D., Registrar of Banks, The Treasury, Pretoria, South Africa. (1923) **A** Union Treasury, registrar of banks, A. **B** B.A., 1920, Univ. of South Africa; A.M., 1922, Ph.D., 1924, Columbia. **C** Currency development in South Africa. **D** 7, 9, 6. **F** Banking and currency development in South Africa (Juta and Co., 1928); Analysis of investment policies of life insurance companies in South Africa (Univ. of Pretoria, 1937); Insuring our insurance (Union Booksellers, 1941).

ARNOLDS-PATRON, Paul, Texas Tech. Col., Lubbock, Tex. (1942) **A Texas Tech. Col., Div. of Com., asst. prof. of econ. and manage., T. B** B.S., 1936, M.B.A, 1937, New York. **C** Theory and practice of commercial bank reserves. **D** 7, 1, 2.

ASHMEN, Roy, Ships' Service Dept., Naval Air Station, Jacksonville, Fla. (1942) **A U. S. Navy, Bur. of Aeronautics, lieut., AB. B** B.S., 1935, Drexel Inst. of Tech.; M.S., 1936, Columbia. **D** 12, 4, 1. **E** Market price quotations (doctoral dissertation). **F** Survey of buying habits of Louisiana State University students (Louisiana State Univ., Bur. of Bus. Res., 1942).

ASHTON-HATLEY, George, 2937 Beach Blvd., Gulfport, St. Petersburg, Fla. (1942)

ATLAS, Martin, 1026 16th St., N.W., Washington, D.C. (1942) **A** Treas. Dept., Div. of Tax Res., statis. and econ. anal., R. **B** A.B., 1934, New York; A.M., 1935, Columbia. **D** 6, 8, 17. **E** Collection of income taxes at source (doctoral dissertation); federal revenue program, 1943. **F** "Average income and its use in taxation," June, 1938, "Capital gains taxation," Dec., 1938, Acctg. Rev.; "The excess profits tax," Acctg. Forum, Apr., 1941.

BARBER, Clarence L., Univ. of Minnesota, Vincent Hall, Minneapolis, Minn. (1943)

BARKER, Carl, c/o Shell Oil Co., Inc., 50 W. 50th St., New York City. (1942) **A** Shell Oil Co., dept. mgr., B. **B** B.S.C.E., 1908, Alabama Poly. Inst. **D** 6, 8, 10.

BARNES, Gilbert Hobbs, 477 W. Central Ave., Delaware, Ohio. (1932)

BARNES, Irston Roberts, 401 Ridge Rd., Hamden, Conn. (1928)

BARTLETT, C. A., Post Box 26, Zanzibar, Africa. (1933)

BEARNSON, Julius Benedict, Univ. of Utah, Salt Lake City, Utah. (1939) **A** Univ. of Utah, asso. prof., T. **B** B.S., 1914, Utah State Agric. Col.; A.M., 1917, Stanford. **D** 17, 11, 18. **E** Economic interpretation of certain welfare plans. **F** "Univ. of Utah alumni employment survey," Utah Alumnus, serial, Apr., 1937-May, 1939.

BEGDES, Kutsi, Indiana Univ., Econ. Dept., Bloomington, Ind. (1942)

BEHRENDT, Richard F., Univ. of New Mexico, Albuquerque, N.M. (1942) **A** Univ. of New Mexico, asst. prof. of inter-American affairs, TR. **B** Dipl. Oec. Pol., 1929, Univ. of Cologne, Germany; Dr. Rer. Pol., 1931, Univ. of Basel, Switzerland. **C** Die Schweiz und der Imperialismus (Rascher et Cie., Zurich, 1932). **D** 3, 8. **E** Latin-American economics; international relations. **F** Economic nationalism in Latin America (Univ. of New Mexico, School of Inter-American Affairs, 1941); Fascist penetration in Latin America (Amer. Coun. on Pub. Affairs, Washington, D.C., 1941); "Wirtschaft und Politik im Kapitalismus," Schmollers Jahrbuch, 1932. **G** W.

BELL, Albert L., Hershey Junior Col., Hershey, Pa. (1942) **A** Hershey Junior Col., prof. of econ., T. **B** B.S., 1935, Franklin and Marshall Col.; M.A., 1940, Pennsylvania State Col. **D** 9, 1, 4. **F** "Three ring circus for morons," Amer. Mercury, June, 1938.

BELL, John Fred, Univ. of Illinois, 318 Commerce Bldg., Urbana, Ill. (1927) **A** Univ. of Illinois, prof. of econ., T. **B** A.B., 1923, Muskingum Col.; A.M., 1924, Ph.D., 1928, Illinois. **C** Development of the banking activities of trust companies. **D** 1, 2, 3. **E** History of economic thought. **F** "Friederich List, champion of industrial capitalism," Pa. Mag. of Hist. and Biog., Jan., 1942; Direct price control in economics of war, by Steiner (Wiley, 1942). **G** WSE.

BENDINER, Irvin, 1520 Real Estate Trust Bldg., Philadelphia, Pa. (1934) **A** Attorney at law. **B** B.S. in Econ., 1921, M.A., 1924, Pennsylvania; LL.B., 1925, Temple. **D** 9, 18, 6.

BENOIT-SMULLYAN, Emile, 2106 F St., N.W., Washington, D.C. (1942) **A Bur. of Labor Statis., Postwar Div., econ., R. B** B.A., 1932, M.A., 1933, Ph.D., 1938, Harvard. **C** Development of French sociologistic theory. **D** 11, 10, 1. **E** Survey of monopolistic-competition theory; criteria of monopoly; relation of monopoly to postwar full employment. **F** Social thought from lore to science (with H. E. Barnes and H. Backer) (D. C. Heath, 1938).

BERGER, Adolph Oscar, 1447 E. 110th St., Cleveland, Ohio. (1934) **A** Fenn Col., Dept. of Econ. and Statis., chmn., T. **B** A.B., 1929, Dartmouth; M.A., 1936, Chicago. **D** 1, 5, 4.

BERMUDEZ, Jorge, 2 Fernandez Ave., Santurce, Puerto Rico. (1932) **A Dept. of Fin., asst. treas., A.;** Univ. of Puerto Rico, asst. prof. of econ., T. **B** B.B.A., 1932, Univ. of Puerto Rico; M.B.A., 1933, Northwestern. **D** 7, 6, 1.

BINGHAM, Jonathan B., 208 Primrose St., Chevy Chase, Md. (1943)

BISHOP, Morris Comstock, 1809 Queens Lane, Arlington, Va. (1942) **A Office of Q.M. Gen., econ.;** R. **B** A.B., George Washington. **D** 17, 1, 4.

BLAKE, Frederick Henry, Jr., 95 Montclair Ave., Montclair, N.J. (1940)

BLANCHARD, John D., Groton, Tompkins County, New York. (1930) **A** Self-employed, B. **B** A.B., 1920, Cornell Univ.; A.M., 1922, Wisconsin. **D** 10, 1, 11. **E** Social control of our economic organization (doctoral dissertation); real estate management policies. **F** Buying habits of people of small city (Ohio Wesleyan Univ., 1927); "U. S. Boycott of Japan," Ohio State Jour., 1932; Economic Valuation (Univ. of Kansas City, part I, 1936).

BLEDSOE, William Ambrose, Bur. of Labor Statis., 1355 Market St., San Francisco, Calif. (1942) **A Bur. of Labor Statis., regional price econ. B** B.S., 1928, M.A., 1931, Illinois. **D** 1, 10, 11.

BOND, Eugene Ayres, c/o Chesapeake and Potomac Telephone Co., 725 13th St., N.W., Washington, D.C. (1942) **A** C. and P. Telephone Co., customer rela. asst., B. **B** B.A., 1922, Wisconsin. **D** 14, 10, 5.

BORENDAME, James Eugene, Jr., 2280 Bd. of Trade Bldg., 141 W. Jackson Blvd., Chicago, Ill. (1942) **A Naval Intelligence Serv., first class yeoman;** R. H. White Co., Boston, advertising res., RAB. **B** 1936, Davenport-McLachlan Inst.; 1941, Babson Inst. of Bus. Admin.; 1942, John Marshall Law School. **D** 10, 4, 12.

BOWMAN, Mary Jean, Iowa State Col., Dept. of Econ., Ames, Iowa. (1934) **A** Iowa State Col., asst. prof., TR. **B** A.B., 1930, Vassar; A.M., 1932, Ph.D., 1938, Radcliffe. **C** Economic aspects of the life histories of reformatory women. **D** 20, 19, 1. **E** Relation of programs in nutrition and housing to emerging population problems and policies.

BRADLEY, J. Harold, 619 Sarbonne Rd., Los Angeles, Calif. (1942) **A** Retired. **D** 10, 3, 8. **E** International organization and integration of forces of intelligence.

BRANCH, H. N., Room 1036, 30 Rockefeller Plaza, New York City. (1942)

BREIER, Frederick Arthur, International House, Berkeley, Calif. (1942) **A** Univ. of California, grad. fellow, R. **B** Certificate, 1938, Consular Academy, Vienna; A.B., 1940, Rochester. **D** 7, 8, 1. **E** Study on German-Italian trade under exchange control.

BRESKY, Henry, 540 W. 157th St., New York City. (1942) **A U. S. Army, private;** N.Y.C. Housing Authority, manage. asst., A. **B** B.A., 1936, New York; M.A., 1942, Columbia. **D** 16, 19, 18.

BROWN, Joe Edwin, Box 22, Southwestern Univ., Georgetown, Tex. (1942) **A** Southwestern Univ., asst. prof., T. **B** B.S., 1939, M.S., 1941, Texas Col. of Arts and Ind. **D** 1, 19, 10. **E** Importance of a free technology in our future economy.

BRYCE, Robert Broughton, 372 Driveway, Ottawa, Ont., Canada. (1934) **A** Dept. of Fin., Canada, A. **B** B.A.S., 1932, Univ. of Toronto; B.A., 1934, Cambridge. **D** 6, 8, 10.

BUKOVSKY, Alexis Paul, 1701 Swann St., N.W., Washington, D.C. (1942) **A Dept. of Interior, Office of Solid Fuels Co-ordinator for War;** Bit. Coal Div.; econ. anal., RA. **B** B.S. in E., 1930, Michigan; M.S. in Trans., 1931, Yale. **D** 14, 10, 6.

BURGER, Alvin Arthur, New Jersey State Chamber of Com., 605 Broad St., Newark, N.J. (1942) **A** N.J. State Chamber of Com., director of res., R. **B** 1919-20, Washington Univ.; New York Univ. **D** 6, 3, 10. **E** Survey of federal government economy proposals; a series of tax and administrative surveys related to New Jersey State government. **F** How to study your municipal budget (Dec. 1941), Municipal finances in New Jersey—a record of improvement (May, 1940), Unsoundness of police and firemen's pension funds (monographs, New Jersey State Chamber of Com.).

BURK, Monroe, 1912 3rd St., N.E., Washington, D.C. (1942) **A U. S. Army, private;** Soc. Sec. Bd., asst. econ., R. **B** B.S.S., 1938, City of New York; M.B.A., 1940, Harvard. **D** 1, 17, 5.

CALMUS, Hannah Shapiro (Mrs. A.), 225 Sterling Pl., Brooklyn, N.Y. (1942) **A** Girls Commercial High School, Brooklyn, T. **B** A.B., 1921, Hunter Col.; A.M., 1922, Columbia. **D** 1, 11, 17. **E** Secondary economics textbooks in relation to the changing American economy, 1885-1941 (doctoral dissertation).

CAMMACK, T. Emerson, 333 S. 43rd St., Philadelphia, Pa. (1942) **A Univ. of Pennsylvania, student. B** B.S. in Bus., 1940, M.A., 1941, Oklahoma.

CAMPBELL, A. Stuart, TVA, Knoxville, Tenn. (1943) **A** TVA, econ., R. **B** B.S., 1924, Pennsylvania; M.S., 1928, Ph.D., 1930, Virginia. **C** American export trade and exporting methods. **D** 3, 4, 11.

CAREY, Robert Dennis, 624 N. Monroe St., Arlington, Va. (1942) A Civ. Serv. Com., examiner, A. B B.S., 1940, Butler. D 1, 2, 3.
CARSON, Albert Ben, 2601 S. 11th, Lincoln, Neb. (1942)
CHAMBERLAIN, Mariam Kenosian (Mrs. Neil W.), 900 19th St., N.W., Apt. 310, Washington, D.C. (1942) A Office of Strategic Services, asst. econ., R; R. B A.B., 1939, Radcliffe. D 11, 7, 5.
CHAMBERLAIN, Neil Wolverton, 900 19th St., N.W., Apt. 310, Washington, D.C. (1941) A U.S.N.R., ensign. B A.B., 1937, A.M., 1939, Western Reserve; Ph.D., 1942, Ohio State. C Procedural aspects of collective bargaining. D 17, 11, 7. E "The judicial process in labor unions," Brooklyn Law Rev., Dec., 1940.
CHANDRASEKHAR, Sripati, International House, 500 Riverside Dr., New York City. (1942) A New York Univ., grad. student, R; Univ. of Madras, Dept. of Econ. Res., India. B B.A. (Hons.), 1938, M.A. (Econ.), 1939, M.Litt. (Econ.), 1941, Univ. of Madras. D 20, 3, 2.
CHASE, Stuart, Georgetown, Conn. (1942) B S.B., 1910, Harvard. E Books on postwar problems for Twentieth Century Fund. F The economy of abundance (Macmillan, 1934); The tyranny of words (1938), Idle money, idle men (1940) (Harcourt, Brace). G W.
CHERNIACK, Nathan, 111 8th Ave., New York City. (1942) A Port of New York Authority, econ. B B.S., 1922, M.I.T.; M.B.A., 1934, New York. D 14, 4, 11. F "Use of motor trucks in transportation in terminal markets," Research in transportation in relation to agriculture (S.S.R.C. Bul. 8, 1933); "Methods of estimating vehicular traffic volume with the aid of traffic patterns," Proceedings, Highway Research Board, Nov., 1936; "Measuring the potential traffic of a proposed vehicular crossing," Proceedings, Transactions, American Society of Civil Engineers, 1941.
CHUDSON, Walter Alexander, 2319 40th Pl., N.W., Washington, D.C. (1939) A BEW, sr. econ.; Columbia Univ., instr., TR. B B.A., 1934, Pennsylvania; 1936, Oxford; Ph.D., 1942, Columbia. C Financial structure of American corporations. D 7, 1, 8. E Wartime controls of international economic relations.
CLARK, Eugene, 309 E., Clifton Ter., N.W., Washington, D.C. (1943)
CLARK, William Clifford, 295 Manor Rd., Ottawa, Ont., Canada. (1919)
CLOSE, James A., Lawrence Col., Appleton, Wis. (1941) A Lawrence Col., asso. prof. B A.B., 1929, Yale; M.B.A., 1931, Harvard; C.L.U., 1940, Amer. Col. of Life Underwriters. D 9, 8, 7. E History of Anaconda Copper Mining Co. (doctoral dissertation).
COHEN, Jacob, 832 E. 57th St., Chicago, Ill. (1942)
COHEN, Morris, Bd. of Invest. and Res., Dupont Circle Bldg., Washington, D.C. (1942)
COLE, Philip Gillett, 723 Broadway, Tarrytown, N.Y. (1942)
CORDERO, Rafael de J., c/o State Insurance Fund, San Juan, Puerto Rico. (1939) A State Insurance Fund, mgr., A; Univ. of Puerto Rico, Dept. of Econ., head, TR. B B.A., 1927, Univ. of Puerto Rico; M.A., 1928, Columbia. D 6, 20, 1. E Problem of overpopulation in Puerto Rico (doctoral dissertation). F "Taxation of sugar corporations in Puerto Rico," "Taxation of banks in Puerto Rico," "The population problem in Puerto Rico," Revista de Economia, 1931.
CORRIGAN, Annabelle Gertrude, 710 Berkeley Ave., Orange, N.J. (1941) B S.B. in Fin., 1932, New York; A.M. in Econ., 1933, Columbia. D 2, 3, 9. E French foreign loans 1918-38 (doctoral dissertation).
COSSON, Clarence, H.Q. Bat., Ft. Cronkhite, Calif. (1927)
COX, Sherman Julian, 5420 Newark St., N.W., Washington, D.C. (1942) A OPA, bus. econ., R. B B.A., 1936, California at Los Angeles. D 10, 9, 13.
CRAFER, Thomas Woodside Bentley, Syracuse Univ., 206 Maxwell Bldg., Syracuse, N.Y. (1935)
CRESWELL, Charles Franklin, 165 Broadway, Room 910, New York City. (1923) A Statis.; Asso. of Life Ins. Pres., RA. B LL.B., 1913, National Law Univ. D 9, 4, 3. F "Social significance of life insurance company investments," Sociology of Life Insurance, by Edward A. Woods (D. Appleton, 1928).
CRISWELL, Ben N., 2515 Monroe St., Columbia, S.C. (1940) A U. S. Army, 1st lieut.; Office of Govt. Reports, sr. field rep. for S.C., A. B B.S.B.A., 1933, Florida. D 10, 4, 18.
CROMPTON, George, 74 William St., Worcester, Mass. (1935) A Crompton and Knowles Loom Works, dir.; Crompton Associates, pres.; People's Savings Bank, vice-pres., trustee, member of bd. B A.B., 1895, Harvard. D 8, 2. F The tariff: an interpretation of a bewildering problem (Macmillan, 1927); "Can the tariff be made scientific?" The Annals, Jan., 1929. G W.
CROXTON, Frederick Emory, Columbia Univ., Hamilton Hall, New York City. (1941) A Columbia Univ., asso. prof. of statis., T. B A.B., 1920, A.M., 1921, Ohio State; Ph.D., 1926, Columbia. C Unemployment in Columbus, Ohio, 1921-25 (Bur. of Labor Statis., Bul. 409). D 4. F Applied general statistics (with D. J. Cowden) (1939), Workbook in applied general statistics (Rev., 1941) (Prentice-Hall); "Toward standardized symbols for basic statistical concepts," Jour. of Amer. Statis. Asso., Sept., 1941. G S.
CURTIS, George Bartlett, Lehigh Univ., Bethlehem, Pa. (1926)
CURTIS, Lucien Simington, 4459 Enright Ave., St. Louis, Mo. (1938) A Stowe Teachers Col., asso. prof., T. B A.B., 1919, Harvard; A.M., 1925, Columbia. D 17, 1, 2. E Critical examination of criteria for determining salaries of teachers (doctoral dissertation).
CUSACK, (Sister) Mary Thomasine, Rosary Col., River Forest, Ill. (1942) A Rosary Col., asst. prof., T. B B.A., 1928, Rosary Col.; M.A., 1935, Ph.D., 1940, Catholic. C Significance of a changing concept of ownership in social and economic planning. D 1, 20, 10. E Labor market demands and the college woman; consumer problems in wartime. F "Complacent consumers," Jan. 24, 1942, "Voluntary discipline now," Aug. 8, 1942, America.
DAVIDSON, Rita, 210 6th Ave., New York City. (1942)
DAVIS, Pearce, Hunter Col., 695 Park Ave., New York City. (1937) A Hunter Col., asst. prof., T. B B.S., 1929 as of 1928, Pennsylvania; A.M., 1931, George Washington; Ph.D., 1938, Harvard. C American glass industry and the tariff. D 8, 1, 11.
DEAK, Nicholas Louis, 14 Grove Ave., Larchmont, N.Y. (1942) A U. S. Govt. Survey of Foreign Exports, consultant, R; Col. of the City of New York, inst., T. B Diploma, 1925, Hochschule fuer Welthandel, Vienna; Ph.D., 1929, Univ. of Neuchatel, Switzerland. C L'Industrie du bois en Autriche. D 8, 16, 15. E Totalitarian trade. F 15 economic geographical maps of Austria, Rumania, Hungary, a study of the conversion of agricultural debts in Rumania, published by several Rumanian and Austrian publishing houses, 1929-1937.
DENIS, Reid Marsh, 128 Oxford St., Cambridge, Mass. (1942) A Littauer fellow, Harvard. B A.B., 1938, George Washington. D 6, 10, 11.
DENISON, Edward Fulton, 3306 Cheverly Ave., Cheverly, Hyattsville P.O., Md. (1941) A Bur. of For. and Dom. Com., asso. econ., R. B A.B., 1936, Oberlin; M.A., 1938, Ph.D., 1941, Brown. C Influence of the Walsh-Healy Public Contracts Act upon labor conditions (Summary in J.P.E., Apr., 1941). D 19, 17, 18. E Final product estimates in the service industries.
de ROOVER, Raymond, Illinois Col., Dept. of Econ., Jacksonville, Ill. (1943)
de SCHWEINITZ, Dorothea, 1208 30th St., N.W., Washington, D.C. (1928) A WPB, Labor Produc. Div., sr. econ. B A.B., 1912, Smith; M.A., 1929,

Columbia. D 17, 18. F How workers find jobs (Univ. of Pennsylvania Press, 1932); Occupations in retail stores (Int. Text Book Co., rev. 1940).

DEUTCH, Michael Joseph, The Marlborough, Forest Hills South, N.Y. (1943) **A BEW, Eng. Div., prin. consultant, A;** B. B M.E., 1928, E.E., 1929, Econ., 1930, Univ. of Ghent, Belgium. C Mono et bimetallisme. D 14, 10, 11. F. Rationalization of distribution of electrical energy (World Power Conf., Supt. of Doc., 1936); Rural electrification (World Power Conf., Vienna and Brussels, 1938); Five year plans in Russia (Sofina, Brussels, 1940).

DEWEY, Lloyd Ellis, 146-17 Hawthorn Ave., Flushing, N.Y. (1941) A New York Univ., prof. of fin., T. B S.B., 1925, J.D., 1929, A.M., 1932, New York. D 9, 7, 5. F Organizing and financing business (with J. H. Bonneville) (Prentice-Hall, 1932).

DILLARD, Louisa Gardner (Mrs. Dudley), Univ. of Maryland, College Park, Md. (1943) **A Univ. of Maryland, fellow,** R. B B.A., 1935, B.S. in Educa., 1936, Ohio State. D 1, 16, 14. E Regional shifts in production in Canada.

DIRKSEN, Cletus Francis, St. Joseph's Col., Collegeville, Ind. (1942) A St. Joseph's Col., instr., T. B M.A., 1941, Catholic. D 3, 5, 1. E Economic factors in delinquency. F Bibliography of economic books and pamphlets by catholic authors, 1891-1941 (with Paul J. Fitzpatrick) (Catholic Univ. Press, 1941); "The news that's going 'round," Columbia, Mar., 1942.

DIVENUTI, Anna, 20 Villa Ave., Everett, Mass. (1942)

DIXON, Floyd Jefferson, Balfour Tech. School, Regina, Sask., Canada. (1938) A Balfour Tech. School, T. B B.Com., 1932, Queen's Univ.; M.A., 1937, Univ. of Washington. D 7, 6, 1.

DOHERTY, Richard Power, Boston Univ., Col. of Bus. Admin., 685 Commonwealth Ave., Boston, Mass. (1937) A Boston Univ., prof. of econ., TR. B A.B., 1925, A.M., 1926, Clark Univ. D 5, 11, 9. E Economic decentralization of metropolitan areas. F Structure of American business (Bruce Humphries Pub. Co., 1937); "Decentralization of retail trade areas," Jour. of Market., Mar., Dec., 1941; Consumer buying habits (Boston Univ. Bur. of Bus. Res., 1938). G SE.

DOLESHY, Frank Louis, c/o Mrs. Frank Doleshy, 205 S. 28th, Yakima, Wash. (1942) **A U. S. Army, private.** B B.A., 1939, Univ. of Washington. D 6, 14, 1. E Selected topics in taxation.

DOUGLAS, James H., Jr., 1344 30th St., N.W., Washington, D.C. (1942)

DOWNEY, William Henry, Box 5, Notre Dame, Ind. (1942) A Univ. of Notre Dame, prof., T. B B.S., 1926, Valparaiso; A.M., 1928, Notre Dame. D 7, 6, 14. E Future of commercial bank. F "The coming inflation," Ave Maria, Oct., 1940. G S.

DUGGAN, John Joseph, 65 Broadway, New York City. (1941) A Moody's Investors Serv., railroad and airline specialist, RAB. B B.S., 1936, New York; 1941-42, St. Johns Univ. D 14, 4. E Air freight and railroad transportation in postwar economy. F Airline industry in war, Airline transportation, etc. (Moody's Manuals and Surveys).

DUGGER, Lewis M., Coca-Cola Co., P. O. Drawer 1734, Atlanta, Ga. (1941)

EASTBURN, Walter Newbold, 169 Halsted St., East Orange, N.J. (1942) A Del., Lack. and West. R.R. Co., real estate and tax agent. D 14, 16, 5.

EATON, Howard Ormsby, Bur. of For. and Dom. Com., Washington, D.C. (1942) **A Bur. of For. and Dom. Com., sr. econ. anal., R;** Univ. of Oklahoma, prof. B A.B., 1919, Ph.D., 1928, Wisconsin. C Austrian philosophy of values (Univ. of Oklahoma Press, 1930). D 8, 5, 17. F No more unemployed (Univ. of Oklahoma Press, 1934). G S.

EBERHART, E. Kingman, 726 E. Wayne Ave., Wooster, Ohio. (1930) A Col. of Wooster, asst. prof., T. B A.B., 1928, Simpson Col.; M.A., 1929, Columbia. D 19, 3, 17. F When you buy (with M. B. Trilling and F. W. Nicholas) (Lippincott, 1938); Economics and cultural change (1938), Economic institutions and cultural change (1941) (both with R. A. Dixon) (McGraw-Hill).

EGHERMAN, Harvey M., Co. B, 2nd Platoon, 1st Fin. Trg. Bn., Ft. Benjamin Harrison, Ind. (1940) **A U. S. Army, fin. officer, pay roll acctg.;** Cornell Univ., instr., T. B A.B., 1939, A.M., 1940, Cincinnati. D 6, 1, 7.

EHLERS, Kurt H., Clark Univ., Worcester, Mass. (1942)

ENGQUIST, Ernest John, Jr., 813 Chalfonte Dr., Alexandria, Va. (1930) **A U. S. Census Bur., statis.,** RA. B B.A., 1929, Lawrence; M.A., 1930, Illinois; Ph.D., 1939, Northwestern. C Electrical utilities in the business cycle. D 5, 8, 4. G S.

EPSTEIN, Ralph Cecil, 3335 N. Main St., Buffalo, N.Y. (1922) **A WPB, Requirements Com.;** Univ. of Buffalo, dean, prof. of econ., TRA. B A.B., 1921, Columbia; A.M., 1925, Ph.D., 1926, Harvard. C Chapters on the automobile industry. D 9, 1, 5. E A 25-year study of profit rates. F The automobile industry (Shaw, 1928); Source book for study of profits (U. S. Govt., 1932); Industrial profits in the U. S. (Nat. Bur., 1934). G WSE.

EVERETT, Clayton, 1309 N. Crawford Ave., Chicago, Ill. (1942) A Int. Harvester Co., law clerk, A. B LL.B., 1918, Chicago Kent Col. of Law. D 6, 17, 18.

EWING, John Bertwell, 1629 Columbia Rd., N.W., Washington, D.C. (1926) A Soc. Sec. Bd., tech. anal., A; R. B A.B., 1916, William Jewell Col.; A.M., 1917, Washington Univ.; Ph.D., 1931, Wisconsin. C Economic issues involved in the unemployment insurance movement in Wisconsin. D 18, 17, 20. E Employment security (placement and unemployment insurance) administration. F Job insurance (Univ. of Oklahoma Press, 1933); "Quest for security," Southwest Soc. Sci. Quar., Sept., 1936. G S.

FEAHR, William James, 911 Graydon Ave., Norfolk, Va. (1942) **A Hdqrs., 5th Naval Dist., commandant's liaison officer, lieut. (j.g.), R;** Chesapeake and Potomac Telephone Co., asst. com. mgr., B. D 14, 9, 4. E Defense housing problems, Norfolk.

FERMAN, Irving, Army Air Forces Navigation School, Group I—Class 42-17-2, Hondo, Tex. (1942) **A U. S. Army, cadet;** New York Univ., grad. student. B B.S., 1941, New York. D 2, 1, 17. E Economic bases of fascism.

FINLEY, John W., 6000 13th Pl., N.W., Washington, D.C. (1943) **A OPA, asso. bus. anal.;** B. B B.A., 1939, Brooklyn Col. D 9, 10, 11.

FISHBURN, Junius P., Box 1139, Roanoke, Va. (1923)

FLINK, Salomon, Univ. of Newark, Newark, N.J. (1942) A Univ. of Newark, asso. prof., T. B Volkswirt, 1927, Col. of Com., Berlin; M.A., 1928, Ph.D., 1931, Columbia. C The German reichsbank and economic Germany (Harper, 1931). D 1, 7, 9. E The American economy. F Codes, cartels, national planning (with Bruno Burn) (McGraw-Hill, 1934).

FOSTER, Merle A., 102 N. Garfield St., Arlington, Va. (1942) **A Arlington Inst. School, dir., A;** Co-ord. of Inter-Amer. Affairs, sr. agric. econ., RA. B B.D., 1915, A.B., 1916, Highland Park Col.; M.S., 1923, Iowa State Col. D 15, 4, 16.

FOX, Bertrand. 5920 2nd Pl., N.W., Washington, D.C. (1934) **A WPB, Material Requirements Sec., chief;** Williams Col., asso. prof., T. B A.B., 1929, Northwestern; M.A., 1933, Ph.D., 1934, Harvard. C Analysis of the railway wage statistics of the Interstate Commerce Commission. D 7, 8, 4.

FREDRICKSON, John William, 5459 W. Augusta Blvd., Chicago, Ill. (1942)

GALIGNIANA, Lucas Mario, Arenales 2439, Buenos Aires, Argentina, So. Amer. (1942) A Univ. of Buenos Aires, Law Faculty, in charge of a seminar and of Res. Bur., TR. B Lawyer, 1934, Univ. of Buenos Aires. D 3, 9, 8. E Contemporary economics and finance in U.S.A. F "Marine insurance in U.S.A.," Boletin Mensual (Law

Faculty), Dec., 1941; "Conquest, colonization and revolution in Anglo-Saxon America," Argentino-Norteamericano, B.A., Apr., 1942.

GARDNER, Walter Richmond, 115 Leland St., Chevy Chase, Md. (1940) **A** Fed. Res. Bd., Div. of Res. and Statis., Int. Sec., head, RA. **B** M.A., 1921, Harvard. **D** 8, 7, 5. **F** "Central gold reserves, 1926-31," A.E.R., Mar., 1932. **G** S.

GEMMILL, Paul Fleming, 406 Thayer Rd., Swarthmore, Pa. (1925) **A** Univ. of Pennsylvania, prof. of econ., T. **B** A.B., 1917, Swarthmore; Ph.D., 1925, Pennsylvania. **C** Collective bargaining by actors (Bur. of Labor Statis., 1926). **D** 1, 17, 3. **F** Fundamentals of economics (4th ed., 1942), Economics: principles and problems (with R. H. Blodgett) (2nd ed., 1942) (Harper); Present-day labor relations (Wiley, 1929). **G** WSE.

GERSCHENKRON, Alexander, Univ. of California, Dept. of Econ., Berkeley, Calif. (1943)

GIES, Thomas George, 401 N. 4th Ave., Detroit, Mich. (1942) **A Detroit Ordnance Dist., asso. inspector.** **D** 3, 6, 10.

GILBERT, (Mrs.) Hilda Kessler, 501 E. Mobile St., Florence, Ala. (1941)

GLADE, Frederic H., Jr., New York Univ., School of Com., Washington Sq., New York City. (1942) **A** New York Univ., instr., TR. **B** B.S., 1939, New York. **D** 12, 6, 14. **E** Principles of wartime price controls.

GLAESER, Martin Gustave, Univ. of Wisconsin, 314 Sterling Hall, Madison, Wis. (1920)

GLATZERT, Paul L., 258 N. Bellefield St., Pittsburgh, Pa. (1942) **A Univ. of Pittsburgh, grad. student;** Erie public school system, T. **B** A.B., 1927, Thiel Col.; M.Ed., 1936, Litt.M., 1942, Pittsburgh. **D** 17, 10, 19. **E** Development and interpretation of a national labor policy as revealed by the NWLB (doctoral dissertation).

GOFF, John Hedges, Box 10, Auburn, Ala. (1942) **A Bd. of Investigation and Res., Transp., dir., econ. studies, R;** Alabama Poly. Inst., prof. of econ., T. **B** A.B., 1919, A.M., 1920, Oglethorpe Univ.; Ph.D., 1929, Georgetown Univ. **C** Gums and resins of Latin America in world trade. **D** 14, 8, 16. **F** Co-author, International freight rate problem, History of navigation on the Tennessee River (1937), Supplemental phases of the interterritorial freight rate problem of the U. S. (1939) (TVA). **G** E.

GOLD, Bela, 3007 N. Pershing Dr., Arlington, Va. (1938) **A** Bur. of Agric. Econ., prin. anal., R. **B** B.S. in M.E., 1934, New York. **D** 11, 10, 17. **E** Field study of operating effectiveness of agricultural control programs; mobilization of technology for increased productivity in war.

GOLD, Sonia S. (Mrs. Bela), 3007 N. Pershing Dr., Arlington, Va. (1942) **A** War Manpower Com., asso. econ., R. **B** B.A., 1938, Hunter Col. **D** 17, 3, 18. **E** Wartime labor controls in Great Britain; labor market readjustments in the United States after World War I.

GOLDSMITH, Raymond W., 3754 Jocelyn St., Washington, D.C. (1942) **A WPB, head program planner;** SEC, Trading and Exchange Div., asst. dir., R. **B** Ph.D., 1927, Univ. of Berlin. **C** Development of the German big commercial banks, 1914-25 (in German, 1928). **D** 9, 10, 8. **F** Changing structure of American banking (Geo. Routledge, London, 1933); Volume and components of saving in U. S. 1933-37 (Studies in income and wealth, Vol. III, Nat. Bur. of Econ. Res., 1939); Distribution of ownership in the 200 largest non-financial corporations (Investigation of Concentration of Economic Power, T.N.E.C., monograph 29, 1940). **G** S.

GREEN, Paul Martin, 300 N. Granada St., Arlington, Va. (1928) **A OPA, asso. chief accountant, A;** Univ. of Illinois, asst. prof. of econ., T. **B** A.B., 1926, Miami Univ.; M.S., 1927, Ph.D., 1933, Illinois. **C** General Motors Corporation: a study in corporate consolidation and finance. **D** 9, 4, 11.

GREENE, Catharine DeMotte (Mrs. A. E.), 485 Grizzly Peak Blvd., Berkeley, Calif. (1928) **A** Univ. of California, asst. prof. of econ., T. **B** A.B., 1915, M.A., 1929, Ph.D., 1937, California. **C** Dynamic balance sheet: a German theory of accounting. **D** 4, 9, 1.

GREGG, Ronald E., Municipal League of Toledo, 312 Colton Bldg., Toledo, Ohio. (1942)

GROMFINE, Isadore J., 2501 N St., S.E., Washington, D.C. (1943)

GRUNBERG, Emile, Univ. of Kansas City, Dept. of Econ., Kansas City, Mo. (1942) **A** Univ. of Kansas City, instr. of econ., T. **B** Diplomvolkswirt, 1929, Ph.D., 1930, Univ. of Frankfort am Main. **C** Der lohn in der Konjunkturlehre (Leipzig, 1931. Universitätsverlag Robert Norke). **D** 1, 3, 5. **E** Prevention-of-inflation measures; saving and price regulation in Germany 1935-42. **F** Der Mittelstand in der Capitalistischen Gesellschaft (C. L. Hirschfeld, Leipzig, 1932); "The mobilization of capacity and resources of small-scale enterprises in Germany," Jour. of Bus., Univ. of Chicago, Oct., 1941, Jan., 1942.

HALPERN, Louis, 1125 Wyatt St., Bronx, New York City. (1942) **A** War Dept., statis. econ., R. **B** B.S.S., 1941, City of New York; M.A., 1942, New York. **D** 6, 17, 14. **E** Agricultural labor in Nazi Germany, 1932-43.

HAMPEL, Louis F., 222 N. Oak Park Ave., Oak Park, Ill. (1942) **A** United Air Lines, econ., R. **B** B.S., 1930, Univ. of Akron; M.B.A., 1931, Northwestern. **D** 14, 4, 9. **F** Workbook in business statistics (Richard D. Irwin, 1942).

HANSON, Alice Cable (Mrs. Homer Jones), 3067 Ordway St., N.W., Washington, D.C. (1925) **A** Bur. of Labor Statis., Cost of Living Div., asst. chief, sr. econ., RA. **B** A.B., 1925, M.A., 1928, Univ. of Washington. **D** 19. **E** Survey of family income, spending, and saving in wartime (co-operative study by Bur. of Labor Statis. and Bur. of Home Econ.). **F** Money disbursements of wage earners and clerical workers (Bur. of Labor Statis., Bul. 638, 1941); "Living conditions of workers in Puerto Rico," Apr., 1941, "Spending and saving of the nation's families in wartime," Oct., 1942, Monthly Labor Rev. **G** S.

HARCOURT, Alfred, Route 1, Box 155, Riverside, Conn. (1942) **A** George S. Armstrong and Co., special consultant, B. **B** B.A., 1904, Columbia. **D** 13, 11, 16. **G** W.

HASTINGS, Hudson Bridge, 6 Everit St., New Haven, Conn. (1920) **A** Yale Univ., prof., T. **B** B.S., 1907, M.I.T.; M.A., 1923, Yale. **D** 5, 4, 7. **F** Costs and profits—their relation to the business cycle (Houghton, Mifflin, 1923). **G** WS.

HEALY, James John, Harvard Univ., Grad. School of Bus. Admin., Soldiers Field, Boston, Mass. (1938) **A** Harvard Univ., teaching fellow. **B** B.A., M.A., 1936, Wisconsin. **D** 17, 11, 18. **E** Layoff procedures (doctoral dissertation).

HERTRAIS, Wesson Seyburn, 4707 Connecticut Ave., N.W., Washington, D.C. (1941) **A Navy Dept., Bur. of Naval Personnel, lieut., B.** **B** Ph.B., 1931, Chicago; M.B.A., 1936, Harvard. **D** 4, 7.

HEUSER, Heinrich Karl, Office of Strategic Services, 25th and E Sts., Washington, D.C. (1942) **A Office of Strategic Services, Shipping and Trade Sec., chief, sr. econ., R.** **B** B.A., 1932, M.A., 1933, McGill Univ.; Ph.D., 1938, London Univ. **C** Exchange control. **D** 8, 1, 7. **F** Control of international trade (Routledge, London, Blakiston, 1938).

HEWETT, William Wallace, Princess Garden Rd., Lanham, Md. (1921)

HILTON, Howard Judd, Jr., 1473 Meridian Pl., Washington, D.C. (1942) **A OEM, classification anal., RA.** **B** B.A., 1942, Univ. of Washington. **D** 3, 17, 4.

HIMADEH, Saîd Behmed, American Univ., Beirut, Lebanon. (1928) **A** American Univ., prof., TR. **B** B.C., 1914, American Univ. of Beirut; M.A., 1928, Columbia. **D** 7, 6, 11. **F** Economic organization of Syria (1936), Economic organization of Palestine (1938), Monetary and banking system of Syria (1935) (in English and Arabic) (American Univ. of Beirut).

HIRSH, Melvin Lester, 328 New York Ave., Brooklyn, N.Y. (1942)

HO, Fengshan, 2374 Massachusetts Ave., N.W., Washington, D.C. (1942)

HOHE, Hubert Gustave, 63 Wall St., New York City. (1942) **A** Econ. and fin. adviser. **B** Ph.D., 1922, Univ. of Frankfort, Germany. **C** Effects of inflation on the "substance" of corporations and their balance sheets. **D** 9, 8, 1.

HOLDEN, Arthur Cort, 570 Lexington Ave., New York City. (1942) **A** Holden, McLaughlin and Associates, RB. **B** Litt.B., 1912, Princeton; B.Arch., A.M., 1915, Columbia. **D** 16, 7, 2. **E** Prefabrication; study of urban redevelopment problems; evidences of change in the theory of rent (doctoral dissertation). **F** Money in motion—social function of banking (Harper, 1940); The settlement idea—a vision of social justice (Macmillan, 1922); The primer of housing (Worker's Educa. Bur., 1927). **G** W.

HOLDEN, Grenville Ross, Tempo. D, Room 1704, 4th and Independence, S.W., Washington, D.C. (1940) **A OPA, spec. asst. to admin., A. B** A.B., 1931, M.A., 1938, Ph.D., 1939, Harvard; B.Litt., 1934, Oxford. **C** Effects of fiscal policy on incomes and employment. **D** 5, 10, 1. **E** Effects of Austrian fiscal policy on incomes and employment. **F** "Mr. Keynes's consumption function and the time-preference postulate," Feb., 1938, "Rationing and exchange control in British war finance," Feb., 1940, Q.J.E.; "Incidence of taxation as an analytical concept," A.E.R., Dec., 1940.

HOLDSWORTH, John Thom, Univ. of Miami, Coral Gables, Fla. (1903) **A** Univ. of Miami, School of Bus. Admin., dean emeritus, T. **B** A.B., 1904, New York; Ph.D., 1907, Pennsylvania. **C** First bank of the United States (Nat. Monetary Com. Report). **D** 7, 8, 9. **E** Revision of money and banking. **F** Money and banking (Appleton-Century, 6th ed., 1938). **G** SE.

HOLLINGSHEAD, Barlow W. S., 12 La Cintilla Ave., Orinda, Calif. (1942)

HONNOLD, Junia H., Apt. 4, Buckingham, 229 N. Piedmont St., Arlington, Va. (1930)

HOYT, James G., 304 E. Dudley Ave., Westfield, N.J. (1939) **A** Fed. Power Com., asso. statis., R. **B** B.S., 1929, New York. **D** 14. **F** Electric rate uniformity (1936), Directory of electric utilities, 1940 (1941), Directory of electric utilities, 1941 (1942) (Fed. Power Com.).

HUBBARD, Joshua Clapp, Box 39, Wesleyan Sta., Middletown, Conn. (1942) **A Wesleyan Univ., instr. B** A.B., 1931, A.M., 1934, Ph.D., 1938, Harvard. **C** Theory of the process of economic development. **D** 5, 7, 1. **E** Postwar fiscal policy and full employment. **F** "A working model of the 40 month or trade cycle," J.P.E., Apr., 1942.

HURFF, George B., Jr., 29 S. Woodland Ave., Woodbury, N.J. (1935)

HURJA, Emil Edward, National Press Bldg., Washington, D.C. (1934) **A** Pathfinder Mag., pub., B. **B** A.B., 1917, Univ. of Washington. **D** 4, 1. **G** WS.

HUTCHESON, Harold Houston, 1914 Hanover Ave., Richmond, Va. (1937) **A U. S. Navy, lieut. (j.g.). B** B.A., 1933, Richmond; Ph.D., 1936, Johns Hopkins. **C** Tench Coxe: a study in American economic development (Johns Hopkins Press, 1938). **D** 3, 1, 2. **E** History of American economic thought. **G** S.

JEUCK, John Edward, Room 109 H.Q. Bldg., 15th Naval Dist., Fleet Post Office, Balboa, Canal Zone. (1942)

JOFFE, Boris Matthewson, 4083 Minnesota Ave., N.E., Washington, D.C. (1943)

JOHNSTON, Virginius Douglas, 133 Randolph Pl., N.W., Washington, D.C. (1942) **A** Howard Univ., treas., A. **B** B.S., 1920, M.B.A., 1921, Northwestern. **D** 4, 9, 1.

JONES, Robert V., 1324 Forest Ave., Evanston, Ill. (1942)

KADLICEK, Frank C., 46-09 Little Neck Pkwy., Little Neck, N.Y. (1942)

KAPLAN, Abraham David Hannath, 835 York St., Denver, Colo. (1923) **A OPA, reg. price dir.;** Univ. of Denver, Curriculum in Govt. Manage., dir., prof. of econ., RA. **B** B.S., 1913, New York; M.A., 1923, Denver; Ph.D., 1930, Johns Hopkins. **C** Henry C. Carey: a study in American economic thought (Johns Hopkins Press, 1931). **D** 10, 6, 19. **F** Urban study of consumer purchases (Bur. of Labor Statis., Buls. 643-49, 1938-40); What, if not capitalism? (Univ. of Denver, 1934). **G** WSE.

KARRMANN, Edward M., P.O. Box 368, Indianapolis, Ind. (1942) **A** American United Life Ins. Co., treas., controller, B. **B** A.B., 1925, Indiana. **D** 9, 4, 5.

KATZ, Frank, 6000 13th Pl., N.W., Washington, D.C. (1943) **A OPA, sr. bus. anal., A. B** B.S., 1927, New York. **D** 11, 9, 14.

KELLY, Edward John, 1756 N. Rhodes St., Arlington, Va. (1940) **A** Treas. Dept., sr. econ., **R. B** B.S., 1924, California; Ph.D., 1941, Stanford; C.P.A., 1929, California. **C** Case study of hospital costs. **D** 4, 1, 11. **G** SE.

KELLY, James Richard, Box 1210, King City, Calif. (1942)

KILLHEFFER, Elvin H., 1458 Nemours Bldg., Wilmington, Del. (1942)

KOCHENDERFER, C. C., Kent State Univ., Kent, Ohio. (1940)

KOHN, Paul, 333 E. 13th St., New York City. (1942) **A Office of European Econ. Res., asso. res. dir., R. B** 1920-24, University of Vienna; M.S.S., 1942, Grad. Faculty of Polit. and Soc. Sci. **D** 3, 5, 10.

KOVARIK, Robert Carl, Hallam, Neb. (1942)

LAIDLER, Harry Wellington, 292 Garfield Pl., Brooklyn, N.Y. (1924) **A** League for Ind. Democracy, exec. dir., RA. **B** A.B., 1907, M.A. (Hon.), 1933, Wesleyan Univ., Middletown; LL.B., 1910, St. Lawrence; Ph.D., 1914, Columbia. **C** Boycotts and the labor struggle (John Lane, 1914). **D** 3, 17, 10. **E** Revising text on labor and co-operative movements in Europe; democratic techniques in our advancing collectivism. **F** History of socialist thought (1927), Concentration of control in American industry (1931). Program of modern America (1936) (Crowell). **G** WSE.

LANDRY, Robert John, 1717 G St., N.W., Washington, D.C. (1942)

LEAVITT, John Anton, 17 Lexington Ave., New York City. (1942) **A** Col. of the City of New York, tutor. **B** B.S., 1936, Oklahoma; M.A., 1937, Ph.D., 1941, Columbia. **C** Voting trust—a device for corporate control (Columbia Univ. Press, 1941). **D** 7, 6, 9.

LEE, Judson Fiske, Damen and Madison St., Chicago, Ill. (1942) **A** Illinois Inst. of Tech. **B** A.B., 1904, Des Moines Col.; A.M., 1905, Iowa; Ph.D., 1913, Chicago. **C** Transportation as a factor in the development of northern Illinois. **D** 17, 12.

LEFKER, Harry, 291 Broadway, New York City. (1942)

LEVINSON, Harold Myer, Univ. of Michigan, Dept. of Econ., Ann Arbor, Mich. (1942) **A Univ. of Michigan, grad. student, T. B** A.B., 1941, M.B.A., 1942, Michigan. **D** 10, 17, 1.

LEZA, Walterio, 104 San Rafael St., Havana, Cuba. (1942)

LINDBLOM, Charles Edward, 221 Walnut, S.E., Minneapolis, Minn. (1942) **A** Univ. of Minnesota, instr. in econ. **B** A.B., 1937, Stanford. **D** 17, 3, 1. **E** Competition and social control in the labor market (doctoral dissertation).

LO, Wan-Sen, China Defense Supplies, Inc., 1601 V St., N.W., Washington, D.C. (1942) **A** China Defense Supplies, Chinese govt. official, A. **B** B.A., 1927, St. John's Univ., Shanghai; Dr. rer. pol., 1940, Univ. of Berlin. **C** Probleme der Agrarkreditpolitik in China (Konrad Triltsch Verlag, Wurzburg-Aumuhle, Germany, 1941). **D** 8, 4, 15. **E** Comparative study of the American and European farm credit system.

LOFT, Jacob, 909 E. 29th St., Brooklyn, N.Y. (1940) **A** Brooklyn Col., instr., T. **B** B.S.S., 1937, City of New York; M.A., 1938, Columbia Univ. **D** 17, 2, 1. **E** Labor in the printing trades, 1899-1939 (doctoral dissertation).

LOPATA, Simon, 43 Hart St., Brooklyn, N.Y. (1943) A Columbia Univ., asst. in statis., TR. B B.A., 1938, M.A., 1941, Brooklyn Col. D 4, 11, 5. F An outline of plane trigonometry (Barron, rev. 1942).

LOSS, William, 120 Broadway, New York City. (1942) A Private investment counsellor, B. B B.C.S., 1928, New York. D 9, 5, 1.

LUNDY, J. Edward, Box 82, Princeton, N.J. (1940)

LUTZ, John Piper, 609 Villa Rd., Drexel Hill, Pa. (1942) A Univ. of Pennsylvania, instr., T. B A.B., 1936, Amherst; M.B.A., 1938, Pennsylvania. D 7, 1, 9.

MACK, Ruth P., 430 W. 116th St., New York City. (1941) A Nat. Bur. of Econ. Res., special collaborator, R. B A.B., 1923, M.A., 1932, Ph.D., 1935, Columbia. C Controlling retailers (Columbia Univ. Press, 1936). D 5, 19, 10. E Business cycle patterns; changes in consumer income and expenditure; production of consumer goods; technique for analytic forecast of national income. F The flow of business funds and consumer purchasing power (1941), Controlling retailers under NRA (1936) (Columbia Univ. Press).

MacKENZIE, William J., 403 Blackhawk St., Chicago, Ill. (1942)

MAHONEY, J. Rolla, Univ. of Utah, Salt Lake City, Utah. (1942) A Univ. of Utah, Bur. of Econ. and Bus. Res., dir., prof. of econ., TR. B B.A., 1918, Utah; M.A., 1928, Ph.D., 1929, Harvard. C Some economic aspects of public education. D 1, 3, 6. E War dislocations and postwar readjustment problems for Utah and the West. F Survey of Utah's system of taxation (Committee of State Legislature, Utah, 1934); Assessment practices in Utah (Bur. of Econ. and Bus. Res., Univ. of Utah, bul., 1938). G SE.

MASIKO, Peter, Jr., 6020 Addison St., Chicago, Ill. (1937)

MASSEL, Mark S., Clinton, Md. (1936) A WPB, head consultant; National Planning Asso., Capital Adjustments Project, dir.; Dept. of Agric., Grad. School, part-time lecturer; American Univ., Grad. School, part-time lecturer; TR. B B.S., 1930, M.A., J.D., 1933, New York. D 10, 11, 4. E Capital adjustment procedures. F Buying through escalator contracts (Nat. Asso. of Purchasing Agents, 1942); "Capital and current budgets for the federal government," Plan Age; "Accounting under the defense program," Nat. Asso. of Cost Accountants Yearbook, 1941. G S.

MATZEN, Edwin Herold, 605 Vine St., West Lafayette, Ind. (1942)

MAYER, Joseph, 722 Jackson Pl., N.W., Washington, D.C. (1921) A Brookings Inst., sr. staff member, R. B A.B., 1911, LL.D., 1929, Southwestern; A.M., 1914, Harvard; Ph.D., 1922, Columbia. C Regulation of commercialized vice. D 19, 3, 6. E Business enterprise and tax-paying capacity. F The seven seals of science (rev. 1937); The income and wealth of the American people (1938); Social science principles (1941). G WSE.

McCONNELL, Joseph Lawrence, Univ. of Illinois, Col. of Com., Urbana, Ill. (1942) A Univ. of Illinois, instr., T. B B.A., 1928, Iowa State Teachers Col.; M.A., 1932, Kentucky; Ph.D., 1941, Iowa. C Contributions to economics of John A. Hobson. D 5, 6, 1. E Further work on contributions to economics of John A. Hobson; epistemology for economists.

McCLEISH, Elwood, 1817 H St., N.W., Washington, D.C. (1942)

McDERMOTT, Edward Henry, 111 W. Monroe St., Chicago, Ill. (1942) A McDermott, Will and Emery. B A.B., 1919, North Dakota; LL.B., 1922, Harvard. F Hamel's manual of board of tax appeals practice (with Charles D. Hamel) (Prentice-Hall, 1924-28).

McDERMOTT, Mary Elizabeth, Atlantic Refining Co., 260 S. Broad St., Philadelphia, Pa. (1942)

McGARRY, Edmund Daniels, Univ. of Buffalo, Buffalo, N.Y. (1923) A Univ. of Buffalo, prof. of econ. and market., TR. B A.B., 1914, West Virginia; M.B.A., 1921, Harvard; Ph.D., 1931, Columbia. C Mortality in retail trade. D 12, 19, 1. E Postwar planning for the Niagara area. F Population shifts in Buffalo (1935), Stability of retail trade, Buffalo (1939) (Univ. of Buffalo, Bur. of Bus. and Soc. Res.). G SE.

McGINLEY, James Joseph, America, 329 West 108th St., New York City. (1942) A America, R. B M.A. (Phil.), 1933, Georgetown Univ.; M.A. (Econ.), 1937, Fordham. D 17, 1, 2. E Trade unionism.

McGUIRE, John Alfred, 12 Byam St., Northfield, Vt. (1938) A Norwich Univ., instr., T. B A.B., 1936, Union Col.; M.A., 1937, Clark Univ. D 17, 6, 4. F "Recent trends in unionism," Patternmakers Jour., Apr., 1937.

McNAUGHTON, Wayne Leslie, Univ. of California, Dept. of Bus. Admin., Los Angeles, Calif. (1936) A Univ. of California at Los Angeles, instr. in manage. and ind., T. B B.S., 1927, Illinois; M.S., 1935, Ph.D., 1941, Columbia. C Development of labor relations law (Amer. Coun. on Pub. Affairs, 1941). D 17, 11, 12. E Improved work methods. F "The essentials of time and motion study," Nat. Bus. Educa. Quar., Summer, 1942.

MEJIAS, Félix, Univ. of Puerto Rico, Dept. of Econ., Rio Piedras, Puerto Rico. (1942) A Puerto Rico Minimum Wage Bd., asso. econ., R; Univ. of Puerto Rico, asst. prof., T. B B.B.A., 1935, Univ. of Puerto Rico. D 17, 3, 4. E Standard of living in sugar industry of Puerto Rico. F The leaf tobacco industry in Puerto Rico (Apr., 1942), The hospital service in Puerto Rico (Sept., 1942) (joint author) (Minimum Wage Bd.)

MENDERSHAUSEN, Horst, Bennington Col., Bennington, Vt. (1943) A Bennington Col., TR. B Ph.D., 1937, Univ. of Geneva, Switzerland. C Les variations du mouvement saisonnier dans l'industrie de la construction (Georg et Cie., 1937). D 3, 10, 4. E Changes in income distribution during the great depression; transition from peace to war economy. F Economics of war (Prentice-Hall, 1940); "On the significance of Professor Douglas' production function," Econometrica, Apr., 1938; "Differences in family savings," Rev. of Econ. Statis., Aug., 1940.

MERIAM, Richard Stockton, Harvard Univ., Grad. School of Bus. Admin., Soldiers Field, Boston, Mass. (1914) A Harvard Bus. School, prof. of bus. econ. B A.B., 1914, Ph.D., 1921, Harvard. C Trade unionism in Germany, 1865-1914. D 11, 10, 1. F "Supply curves and maximum satisfaction," 42, "Unemployment: its literature and problems," 46, "Unemployment reserves," 47, Q.J.E.

MEYROWITZ, Alvin Abraham, 4204 Kaywood Dr., Mt. Rainier, Md. (1940) A WPB, asso. econ., R; Schenley Distillers Corp., econ., B. B A.B., 1938, Cornell Univ.; M.B.A., 1941, New York. D 12, 11, 17. E Copper allocation program for indirect military and essential civilian uses for 1942 and 1943. F "The relative preference of low income groups for small radio stations," Jour. of Applied Psych., Feb., 1939; "Marketing review of the World's Fair," Adv. and Sell., Jan., 1940.

MILES, J. Royce, Box 1040, 201 College Ave., Monroe, La. (1940)

MILLS, Abbot Low, Jr., 1736 S.W. Prospect Dr., Portland, Ore. (1942) A U. S. Nat. Bank of Portland, vice-pres., B. B A.B., 1920, Harvard. D 1, 7, 5.

MIRE, Joseph, 4255 Beverly Rd., Madison, Wis. (1943) A Univ. of Wisconsin, res. asst., TR. B Dr. o. Law, 1931, Univ. of Vienna. D 17, 18, 19. E Outline in labor economics. F "Labor in the world crisis," Social Action, 1942; "New labor laws in Germany," Soziales Recht (Vienna), 1937.

MODIGLIANI, Franco, 12 Dongan Pl., New York City. (1942)

MOORE, W. J., Richmond, Ky. (1934) A Eastern Kentucky State Teachers Col., prof. of econ., TR. B A.B., 1925, A.M., 1928, Ph.D., 1931, Kentucky. C Program for financial administration of public education in Kentucky. D 1, 6, 7. G E.

MOORE, William Cloud, Univ. of Idaho, Dept. of Econ, Moscow, Idaho. (1942) A Univ. of Idaho, instr., TR. B B.S., 1930, M.A., 1936, Idaho. D 17,

1, 4. E Labor relations in the Pacific northwest umber industry. F Labor economics of western ine lumber region (1941, sup., 1942) (privately ub.).

MOREY, Lloyd, Univ. of Illinois, 257 Admin. Bldg., Urbana, Ill. (1942) A Univ. of Illinois, omptroller, prof. of acctg., TA. B A.B., B.Mus., 911, Illinois; LL.D., 1935, Lawrence Col.; C.P.A., 916, Illinois. D 4, 6, 18. F University and college ccounting, 1930; joint author, Municipal accounting principles and procedure, 1941, Fundamentals f governmental accounting, 1942. G W.

MOSCONI, David L., 2327 S. Josephine St., Dener, Colo. (1942)

NEISWANGER, William Addison, 256 N. 'homas, Arlington, Va. (1924) A OPA, Machinery Branch, price exec., A; Univ. of Illinois, asso. rof. of econ., TR. B A.B., 1922, Washburn Col.; A.M., 1923, Columbia; Ph.D., 1931, Wisconsin. C Expansion of bank credit. D 4, 5, 10. G SE.

NELSON, Peter, Oklahoma A. and M. Col., Stillwater, Okla. (1929) A Oklahoma A. and M. Col., Dept. of Agric. Econ., head, TRA. B B.S., 920, M.A., 1924, Utah State Agric. Col.; Ph.D., 930, Illinois. C History of types of farming with pecial reference to Illinois. D 15, 1, 10. E Systems f farming in Oklahoma; economics of agric. conservation; land tenure. F "Farm tenancy in the outhwest," Southwest Soc. Sci. Quar., Mar., 1939; eries on systems of farming in current farm conomics (Oklahoma Exp. Sta., 1935-42).

NELSON, Saul, U. S. Dept. of Labor, Bur. of Labor Statis., Washington, D.C. (1939) A Bur. of Labor Statis., prin. econ., RA. B B.S., 1920, City f New York; Electro-chemical Engr., 1922, M.I.T. D 11, 10, 12. F Price behavior and business policy TNEC, Monograph 1, 1939); Business under the ew price laws (co-author) (Prentice-Hall, 1937); Minimum price regulations under NRA codes NRA Works Materials No. 56, 1936).

NEWMAN, William H., Univ. of Pennsylvania, Wharton School, Philadelphia, Pa. (1939) A WPB, rganizational consultant, A.; Univ. of Pennsylvania, asst. prof., T. B A.B., 1930, Friends Univ.; Ph.D., 1934, Chicago. C Building industry and usiness cycles (Univ. of Chicago Press, 1935). D 1, 5. F Business policies and management (South-Western, 1940).

NORTON, Charles Judd, 107-40 101st St., Ozone Park, N.Y. (1942) A Bell Telephone Laboratories, roject anal., RB. B B.S., 1942, New York. D 1, 7, 4.

OSBORNE, Ernest Leslie, 806 Arlington Ave., Lawton, Okla. (1934)

PALMER, Peter Fourie, Marquette Univ., Col. f Bus. Admin., Milwaukee, Wis. (1943) A Marquette Univ., asst. prof., T. B B.A., 1925, M.A., 926, Univ. of British Columbia; Ph.D., 1932, Stanford. C Fiscal history of British Columbia in the olonial period. D 8, 6, 14. E Control of postwar nflation. F "The abolition of the personal property tax," Mar., 1941, "Regressive state revenue ystems and their relation to state sovereignty," Feb., 1942, Nat. Tax Asso. Bul.

PATTON, Harald Smith, Michigan State Col., Dept. of Econ., East Lansing, Mich. (1923) A Michigan State Col., Dept. of Econ., head, prof., TRA. B B.A., 1912, Toronto; M.A., 1921, Ph.D., 926, Harvard. C Grain growers' co-operation in western Canada (Harvard Univ. Press, 1928). D , 3, 15. E Wartime agricultural policies in United States and Canada. F The Midwest and the trade greements program (Com. Pcl. Ser. 27, Dept. of State, 1936); "Canadian wheat policy since the world war," May, 1937, "The war and North American agriculture," Aug., 1941, Canadian Jour. of Econ. and Polit. Sci. G S.

PEACH, William Nelson, 4209 Stanhope St., Dallas, Tex. (1942) A Fed. Res. Bank, Res. and Statis. Dept., asst. mgr., R; T. B B.A., 1935, Loyola Col., Baltimore; Ph.D., 1939, Johns Hopkins. C Security affiliates of national banks (Johns Hopkins Univ. Studies). D 7, 4, 6. E State banking system of Texas.

PERKINS, John S., 688 Boylston St., Boston, Mass. (1942) A Boston Univ., asst. to the pres., prof. of manage., TRA. B A.B., 1932, Mt. Union Col.; M.A.B., 1934, Boston Univ. D 11, 12, 4. E Application of research and statistics in management. F "Management research," Harvard Bus. Rev., summer, 1940; "Business statistics," Jour. of Amer. Statis. Asso., summer, 1942; N. E. community statistical abstracts (Boston Univ., 1937, 1939, 1942). G WE.

PETERSON, Florence, Dept. of Labor, Bur. of Labor Statis., Washington, D.C. (1934) A Dept. of Labor, div. chief, RA. B B.A., 1917, Ohio Wesleyan Univ.; M.A., 1930, Wisconsin. D 17, 18, 11. E Employer-union agreements; collective bargaining in various industries; shoeworkers and their jobs (doctoral dissertation). F "Labor organizations," Soc. Sci. Year Book, 1942; "Collective bargaining in the U. S.," Int. Labor Rev., 1940; contributor, History of labor in U. S. (Macmillan, 1935). G S.

PHELPS, Elizabeth, Inter American Statis. Inst., c/o Census Bur., Washington, D.C. (1942)

PICARD, Bernard Roger, 21 Alexander Ave., White Plains, N.Y. (1942) A New School for Soc. Res., asso. prof., T. B Ph.D., 1904, Univ. of Besancon, France; Econ. Dr., 1908, LL.D., 1910, Univ of Paris; Agrégé des Facultés de Droit, 1919, Paris. C La philosophie sociale de Renouvier (1908); Les cahiers de 1789 et les classes ouvrières (1910). D 11, 16, 2. E Nineteenth century romanticism and social doctrines in France; town planning in postwar Europe. F Formes et methodes nouvelles des entreprises commerciales (1936), Questions actuelles d'économie rurale (1939) (Sirey, Paris); Le problème des dettes interalliées (Plon, Paris, 1934). G I.

PORTER, Elizabeth Lane, 503 St. Ann St., New Orleans, La. (1942)

RADIUS, Walter A., 3030 Newark St., N.W., Washington, D.C. (1942)

RANKIN, John Owen, Box 387, Hayti, Mo. (1937) A J. O. Rankin Farms, owner, RAB. B Ph.D., 1932, Cornell Univ. C Studies in Nebraska rural economy. E Socio-economic, delta cotton, race, labor, and welfare problems. F joint author, Summary of the standard of living in Nebraska farm homes (Bul. 267, 1932). Farm mortgage history of eleven southeastern Nebraska townships 1870-1932 (Bul. 67, 1933), History of farm land prices in eleven Nebraska counties 1873-1933 (Bul. 72, 1934) (Univ. of Nebraska Exp. Sta.).

RAYMOND, Robert Lovejoy, Jr., 38 Newbury St., Boston, Mass. (1942) A Stand Corp., exec., B. B A.B., 1924, M.A., 1927, Harvard. D 8, 9, 1. E Postwar problems relating to the aluminum industry.

REUSS, (Mrs.) Margaret M., 505 Franklin St., Alexandria, Va. (1942)

RICHARDS, Howard Earl, 3748 Ellerslie Ave., Baltimore, Md. (1940)

RIEFLER, Dorothy B. (Mrs. Winfield W.), Inst. for Advanced Study, School of Econ. and Politics, Princeton, N.J. (1943)

RING, (Sister) Mary Ignatius, Notre Dame Col., South Euclid, Ohio. (1943) A Notre Dame Col., Dept. of Econ., head, T. B A.B., 1924, St. John Univ.; A.M., 1926, Notre Dame; Ph.D., 1931, St. Louis Univ. C Villeneuve Bargemont, precursor of modern social Catholicism (Bruce, 1935). D 19, 8, 1. G S.

RINGO, (Mrs.) Miriam K., 800 S. Washington St., Alexandria, Va. (1942)

ROBBINS, Chandler, 89 Union St., Montclair, N.J. (1943)

RÖPKE, Wilhelm, 56 Quai Gustave Ador, Geneva, Switzerland. (1927) A Grad. Inst. of Int. Studies, prof., TR. B Ph.D., 1922, Univ. of Marburg. C Die Arbeitsleistung im deutschen Kalibergbau (Walter de Gruyter, Berlin, 1922). D 8, 5, 1. E International economic reconstruction. F Crises and cycles (1936), International economic disintegration (1942) (W. Hodge and Co., London); Die Gesellschaftskrisis der Gegenwart (Rentsch, Zurich, 1942). G I.

ROSE, Albert, 107 Yorkville Ave., Toronto, Ont.,

Canada. (1941) **A J. D. Woods Co.; The Wartime Prices and Trade Bd., asst. econ., R. B** B.A., 1939, Univ. of Toronto; M.A., 1940, Ph.D., 1942, Illinois. **C** Cyclical problems in Canadian postwar readjustment. **D** 5, 4, 17. **E** Wartime simplification in Canadian industry. **F** "The economic costs of war," in Steiner, Economic Problems of War (Wiley, 1942).

ROSEN, Josef, Basle 3, Switzerland, P.O.B. (1940) **A Swiss Econ. Archives, res. asst., R. B** Dr. rer. pol., 1934, Univ. of Basle. **C** Das Existenzminimum in Deutschland (Verlag Oprecht, Zurich, New York, 1939). **D** 19, 4, 20. **E** Danubian study, economic, social, etc. **F** "Geburtenrückgang, Kinderzahl und Lebenshaltung," 1938. "Die Lebenshaltung von Arbeitern in der Schweiz und in Deutschland," 1939, Zeitschrift für schweizerische Statistik und Volkswirtschaft; Die Haushaltungsrechnung (V.S.K., 1941).

ROSEN, Martin M., Hdqr. Det., Fin. Replace. Trg. Center, Ft. Benjamin Harrison, Ind. (1943) **A U. S. Army, Fin. Dept., staff sgt., instr., T;** U. S. Treas. Dept., asst. econ. **B** A.B., 1940, Cincinnati. **D** 7, 1, 5. **F** "Population growth, investment, and economic recovery," A.E.R., Mar., 1942.

RUSBY, Paul, 548 Riverside Dr., Apt. 3A, New York City. (1936)

RUSSELL, Samuel Brock, 1245 Luzerne St., Reading, Pa. (1942) **A U.S.N.R., ensign. B** A.B., 1942, Michigan. **D** 6, 7, 10.

SAVILLE, Lloyd, 707 Van Buren St., N.W., Washington, D.C. (1943) **A OPA, econ., A. B** A.B., 1934, Pennsylvania; M.A., 1936, Columbia. **D** 11, 17, 1.

SCHIFF, Michael, Hunter Col., 695 Park Ave., New York City. (1942)

SCOTT, J. W., Alabama Poly. Inst., Auburn, Ala. (1942)

SEVERANCE, Gordon B., Bolinas, Marin County, Calif. (1942) **A** Student. **D** 8, 5, 2. **E** International monetary policy in the postwar world.

SHAFFER, William Berle, Bethany, W.Va. (1935) **A Bethany Col., Dept. of Econ., acting head. B** A.B., 1927, Pennsylvania; M.A., 1942, Ohio State. **D** 18, 19, 8. **E** Disqualification for benefits in unemployment compensation plans (doctoral dissertation).

SHAW, Albert, Hastings-on-Hudson, N.Y. (1886)

SHEPERDSON, William, 3133 Connecticut Ave., N.W., Washington, D.C. (1942)

SHERR, Harry, 5112 Connecticut Ave., N.W., Washington, D.C. (1943) **A Nat. Res. Plan. Bd., econ.;** Railroad Retire. Bd., R. **B** B.B.A., 1939, City of New York. **D** 12, 4, 10.

SHULTZ, Birl E., Thomas Jefferson Hotel, Birmingham, Ala. (1942)

SHYBEKAY, Derso Sebeok, University, Ala. (1943) **A** Univ. of Alabama, Ind. and Ind. Eng. Depts., acting head, prof., TR. **B** Doctor of Econ., 1919, Royal Univ. of Budapest: Ph.D., 1921, Dozent, 1923, Univ. of Berlin. **C** Modernization of the printing industry in Hungary. Relativity in the theory of business cycles (Rudolf Morse and Co., Berlin). **D** 11, 17, 5. **E** Manning tables; time and motion economy in the office. **F** "Frederick Winslow Taylor," 'Bama Beam, 1942; The future of industrial engineering (Alabama Press, 1942). **G** I.

SMITH, Carl Lewis, 1951 Grafton Rd., Elyria, Ohio. (1942) **A** Elyria High School, TA. **B** B.S. in B.A., 1921, M.A., 1930, Ohio State; grad. work, 1939, New York. **D** 1, 7, 6.

SMITH, Harlan Monell, 313 Littauer Center, Cambridge, Mass. (1942) **A Harvard Univ., grad student, teaching fellow. B** A.B., 1936, A.M., 1938, Chicago. **D** 5, 6, 17.

SMITH, Philip Mason, 718 E. College Ave., Greenville, Ill. (1942) **A** Greenville Col., prof. of econ., T. **B** B.S., 1924, Temple; Th.B., 1928, Princeton Theological Sem.; M.Ed., 1938, Ph.D., 1942, Pittsburgh. **C** Protestant comity in metropolitan Pittsburgh (Univ. of Pittsburgh, 1942). **D** 17, 18, 20.

SOUTHWORTH, Herman McDowell, 637 21st St., S., Arlington, Va. (1942) **A U.S. Dept. of Agric., sr. agric. econ., R. B** A.B., 1930, Cornell Univ. **D** 12, 15, 19. **F** School lunch program and agricultural surplus disposal (co-author) (Dept. of Agric., 1941).

SPEARS, Richard Finlay, 1189 Commonwealth Ave., Brighton, Mass. (1942) **A U.S.N.R., Supply Corps, ensign;** Economy Grocery Stores Corp., Market Res. Dept., chief of staff, R. **B** B.S., 1938, Northeastern. **D** 12, 19, 4.

SPURR, William Alfred, 4 Horseshoe Dr., Falls Church, Va. (1938) **A WPB, prin. ind. econ., R;** Univ. of Nebraska, Dept. of Bus. Res., acting chmn., asso. prof. of statis., TR. **B** A.B., 1925, M.B.A., 1928, Harvard; Ph.D., 1940, Columbia. **C** Seasonal variations in the economic activities of Japan (Univ. of Nebraska Press). **D** 4, 5, 16.

STADTHAGEN, Heinz, 7546½ S. Saginaw Ave., Chicago, Ill. (1939) **A** Chicago Mail Order Co., AB. **B** A.B., 1934, Bethany Col., W.Va.; M.A., 1936, Duke. **D** 8, 11, 2.

STAUSS, James H., Univ. of Tennessee, School of Bus. Admin., Knoxville, Tenn. (1941)

STEVENS, Robert Warren, Univ. of Michigan, Dept. of Econ., Ann Arbor, Mich. (1942) **A** Univ. of Michigan, teaching fellow, T. **B** A.B., 1940, Ohio Wesleyan; A.M., 1942, Michigan. **D** 7, 10, 8. **E** Qualitative credit control by Federal Reserve System.

STRANGE, Robert Henry, Scudder, Stevens and Clark, 10 Post Office Sq., Boston, Mass. (1942) **A** Scudder, Stevens and Clark, econ., R. **B** B.A., 1936, Stanford. **D** 6, 5, 1.

SUFFERN, Arthur Elliott, 2015 Allen Pl., N.W., Washington, D.C. (1930) **A WPB, consultant, A. B** B.S., 1909, M.A., 1910, Ph.D., 1915, Columbia. **C** Conciliation and arbitration in the coal industry of America. **D** 17, 3, 18. **F** Coal miners' struggle for industrial status (Macmillan, 1926). **G** S.

SYMONS, James Harold, New York Univ., School of Com., New York City. (1941)

TAGLIACOZZO, Giorgio, 530 Riverside Dr., New York City. (1942) **A** New York Life Ins. Co., agent, B. **B** Diploma, 1929, Grad. School of Soc. Legis., Rome; Ph.D. (Econ.), 1930, Ph.D. (Polit. Sci.), 1933, Univ. of Rome. **C** (Econ.) Economics and the collective hedonistic maximum (C.E.D.A.M., Padova, 1933), (Polit. Sci.) The economical, political, and social aspects of the Australian colonization. **D** 1, 3, 19. **E** B. Croce's philosophy and economic science. **F** Neapolitan economists of the XVII and XVIII centuries (Cappelli, Bologna, 1937); "Sir Arthur Salter's system of ruled economy," Economia, 1934; The American monetary experiment (Rassegna, Italiana, 1934).

TAYLOR, Alonzo Englebert, 200 Chamber of Com., Minneapolis, Minn. (1942)

TAYLOR, Clayton Vincent, U.S. Civil Service Com., Room 269, Washington, D.C. (1942) **A** Civ. Serv. Com., econ and statis., exam. and place., examiner in charge, A. **B** A.B., 1926, M.A., 1932, Illinois. **D** 1, 4, 7.

TAYLOR, Horace, Columbia Univ., New York City. (1924) **A** Columbia Univ., prof. of econ., TRA. **B** A.B., 1922, Oklahoma; A.M., 1924, Ph.D., 1929, Columbia. **C** Making goods and making money (Macmillan, 1929). **D** 1, 10, 3. **E** Systematic economic theory. **F** Main currents in modern economic life (Harcourt, Brace, 1941). **G** SE.

THOMPSON, Leonard Wilson, Fort Hays Kansas State Col., Hays, Kan. (1942) **A** Fort Hays Kansas State Col., Dept. of Econ. and Bus. Admin., head, TA. **B** B.S. in Educa., B.S. in Com., 1924, Kansas State Teachers Col.; M.B.A., 1927, Kansas; Ph.D., 1942, Iowa. **C** History of railway development in Kansas. **D** 14, 9, 16.

TOMLIN, George W., 3815 McGregor Dr., Columbia, S.C. (1942) **A OPA, state price officer, S.C., A;** Univ. of South Carolina, asso. prof., T. **B** B.S., 1935, South Carolina. **D** 1, 7, 4. **E** Pricing process in a collectivist economy (doctoral dissertation).

TOW, Clarence W., 1738 Que St., Washington, D.C. (1936) **A OPA, Lead Unit, head, econ. B** B.A., 1928, M.A., 1929, Iowa. **D** 7, 5, 6. **E** Factors affecting yields of U.S. government securities, 1935-41.

TRUESDELL, **Leon Edgar,** 3429 Ordway St., N.W., Washington, D.C. (1920) **A** Bur. of the Census, chief statis. for population, RA. **B** A.B., A.M., 1907, Sc.D., 1931, Brown; Ph.D., 1928, Robert Brookings. **C** Farm population in the United States. **D** 20, 4, 3. **F** Farm population in the United States (1926), Spanish-English reports of 1935 census of Puerto Rico (1937) (G.P.O.); The Canadian born in the United States (Yale Press, 1942). **G** WS.

TRUMP, Ross Myron, Tulane Univ., Col. of Com., New Orleans, La. (1940)

TULLY, Andrew M., 147 College Ave., Poughkeepsie, N.Y. (1942) **A Vassar Col., instr., T. B** A.B., 1940, Manhattan Col.; A.M., 1941, Columbia. **D** 6, 1, 4. **E** Tax credit and fiscal control in the U.S. (doctoral dissertation).

ULBRIGHT, Jean P., 2701 Upshur St., Mt. Rainier, Md. (1942)

UMSTOTT, Haven Dawson, 2800 Ridge Rd. Dr., Braddock Heights, Alexandria, Va. (1942) **A U.S. Dept. of Agric., Bur. of Agric. Econ., asso. econ.,** R; West Virginia School for Deaf and Blind, fin. sec., A. **B** B.S., 1937, M.A., 1940, West Virginia. **D** 7, 15, 4. **E** Farm mortgage indebtedness in the United States, 1940 and 1942.

VALSTAR, Simon Marinus Dirk, 25 Broadway, New York City. (1942) **A** Royal Netherlands Steamship Co., manag. dir., B. **D** 14, 8.

VANCE, Lawrence Lee, Univ. of California, 119 South Hall, Berkeley, Calif. (1942) **A** Univ. of California, lecturer in acctg., T. **B** B.B.A., 1932, M.A., 1933, Minnesota. **D** 4, 9. **F** "Hedging income against inflation" (with Robert Weidenhammer), Barron's Fin. Weekly, June, 5, 1933; "Earning power valuation of inventory," Acctg. Rev., Oct. 1, 1942.

VanSYCKLE, Calla, 2141 Eye St., N.W., Washington, D.C. (1942)

VERMEER, James, 2520A N. 70th St., Wauwatosa, Wis. (1942) **A** U.S. Dept. of Agric., FSA, program anal., A. **B** B.S., 1939, Iowa State Col.; M.S., 1940, Louisiana State. **D** 15, 3, 1. **F** "The use of credit on upland cotton farms," Louisiana Rural Econ., Oct., 1940.

VIETH, Arthur G., Jr., 4434 S. Spring, St. Louis, Mo. (1942)

WAGNER, Fred William, Univ. of Hawaii, Honolulu, Hawaii. (1936)

WALL, Norman Julian, U.S. Dept. of Agric., Bur. of Agric. Econ., Washington, D.C. (1936) **A** Bur. of Agric. Econ., Div. of Agric. Fin., head, RA. **B** B.A., 1922, M.A., 1925, Minnesota. **D** 7, 15, 5 **F** Agricultural loans of commercial banks (1936), Monthly index of world industrial production (1936), Demand deposits of country banks (1937) (U.S. Dept. of Agric.). **G** S.

WALLIS, W(ilson) Allen, 401 W. 118th St., New York City. (1942) **A Columbia Univ., Div. of War Res., Statis. Res. Group, dir. of res., R;** Stanford Univ., Dept. of Econ., asso. prof. of econ., T. **B** B.A., 1932, Minnesota. **D** 1, 4, 5. **F** A significance test for time series (with G. H. Moore) (Nat. Bur. of Econ. Res., 1941); "How to ration consumers' goods and control their prices," A.E.R., Sept., 1942; Consumer expenditures in the United States (with others) (Nat. Resources Committee, 1939).

WATSON, George H., 1357 E. 50th St., Chicago, Ill. (1943)

WEIDENHAMMER, R. M., 722 Jackson Pl., Washington, D.C. (1942)

WEIDLER, Walter Crothers, Ohio State Univ., Col. of Com. and Admin., Columbus, Ohio. (1922) **A** Col. of Com. and Admin., dean, TRAB. **B** A.B., 1913, A.M., 1915, Ohio State. **D** 12, 19, 8. **F** Principles of marketing (1927), An introduction to business management (1925) (Ronald Press). **G** WS.

WEILLER, Jean Sylvain, 24 Hibben Rd., Princeton, N.J. (1943) **A Inst. for Advanced Study, R;** French Universities (Faculty of Law), prof., T. **B** Doctor, 1929, Univ. of Paris; Agrégé, 1936, Univ. of Paris. **C** L'Influence du Change sur le Commerce Exterieur (M. Rivière, 1929). **D** 8, 1, 3. **E** Postwar problems. **F** "Le Mouvement protectionniste en Grande-Bretagne," Revue d'Economie Politique, 1931; "La balance des paiements et l'expansion capitaliste," Revue Economique Internationale, 1938; editor of Politique Monétaire (Sirey, Paris, 1936)

WEINBERG, Nathan, 9 Thayer St., New York City. (1943)

WEISS, Leonard, 3728 Legation St., Washington, D.C. (1942) **A Office of Co-ordinator of Inter-American Affairs, econ., R. B** M.A., 1940, Fletcher School of Law and Diplomacy. **D** 8, 1, 3. **E** Problems of Canadian-American economic integration (doctoral dissertation).

WELSH, Edward Cristy, 15820 S. Moreland Blvd., Cleveland, Ohio. (1935) **A OPA, reg. price exec., A;** Ohio State Univ., asst. prof. of econ., T. **B** A.B., 1930, Lafayette Col.; M.A., 1932, Tufts Col.; Ph.D., 1940, Ohio State. **C** Administrative protectionism in United States. **D** 10, 8, 5.

WHALEN, Oren Leslie, 208 W. Washington St., Urbana, Ill. (1925) **A** Univ. of Illinois, Agric. Ext. Serv., asst. prof., A. **B** B.S., 1918, M.S., 1925, Ph.D., 1932, Illinois. **C** Commercial red winter wheat of the cornbelt, an economic study. **D** 15, 12, 16. **F** "Fats and oils in industrial markets," Chemical Markets, July, 1932; "Production and utilization of soybeans and soybean products in the United States," Jour. of Amer. Soc. of Agron., Aug., 1932; Residual benefits resulting from activities in connection with agricultural adjustment programs (Ill. Academy of Sci., 1939).

WHITMAN, Marcus Lafayette, Box 907, University, Ala. (1929)

WIARD, William Wolcott, Jr., Moravian Col. for Men, Bethlehem, Pa. (1942) **A** Moravian Col., Dept. of Econ. and Bus. Admin., head, TA. **B** B.S., 1927, M.S., 1937, Syracuse. **D** 11, 7, 18.

WILCOX, Charles Albert, 4449 N. Wolcott Ave., Chicago, Ill. (1942) **A OPA, asso. price specialist,** R; B. **D** 12, 4, 11.

WILLIAMS, Constance, 9603 Riley Pl., Silver Spring, Md. (1943)

WILLS, John Harvey, 42 Hawthorne Ave., Princeton, N.J. (1940) **A** Princeton Univ., instr., T. **B** S.B., 1926, M.I.T.; A.M., 1940, Princeton. **D** 17, 4, 7. **E** Characteristics of the labor market in New Jersey as revealed by old age and unemployment insurance statistics.

WOLF, Alois Franz, 110 Washington St., New York City. (1942) **A** Hills Bros. Co., crop and price anal., RB. **B** Dipl. Kaufmann, 1925, Handelshochschule, Berlin. **D** 19, 15, 1. **E** Essays in commercial forecasting and analysis (doctoral dissertation). **F** "The distribution of a crop" (with Waugh and Burke). Q.J.E., Nov., 1936.

WOLF, Richard B., 161 W. 75th St., New York City. (1943) **A OPA, Res. Div., asso. econ., R. B** S.B., 1941, Harvard. **D** 6, 5, 18. **E** Economic impact of war expenditures in United States, United Kingdom, and Canada.

WOLKISER, Arthur Martin, 15 William St., New York City. (1935) **B** Ph.D., 1915, Univ. of Berlin. **D** 9, 8, 1.

WOOD, Louis Aubrey, Univ. of Oregon, Eugene, Ore. (1930) **A** Univ. of Oregon, prof. of econ., TR. **B** B.A., 1905, Toronto; B.D., 1908, Montreal Presbyterian Col.; Ph.D., 1911, Univ. of Heidelberg. **C** The form and origin of Milton's antitrinitarian conception. **D** 17, 18, 2. **E** Working hours in America. **F** A history of farmers' movements in Canada (Ryerson Press, 1925); Union-management co-operation on the railroads (Yale Univ. Press, 1931).

WOOD, Ralph Clinton, Arlington Village, Apt. 210, Arlington, Va. (1938) **A WPB, econ, R. B** B.A., 1934, M.A., 1935, Wesleyan Univ. **D** 11, 10, 19.

WORCESTER, Dean Amory, Jr., Univ. of Minnesota, School of Bus., Minneapolis, Minn. (1942) **A** School of Bus., instr., **T. B** B.A., 1939, M.A., 1940, Nebraska. **D** 19, 1, 3. **E** An inquiry into the motivation of consumers determined empirically as compared to that assumed in demand theory (doctoral dissertation).

WRIGHT, Chester Whitney, Univ. of Chicago, hicago, Ill. (1904) A Univ. of Chicago, prof., T. B A.B., 1901, A.M. 1902, Ph.D., 1906, Harvard. C Wool growing and the tariff (Houghton Mifflin, 1910). D 2, 10, 11. E Topics in the economic history of the United States. F Economic history of the United States (McGraw-Hill, 1941). G WSI.

WYNGARDEN, Herman Jacob, Michigan State Col., Econ. Dept., East Lansing, Mich. (1942) A Michigan State Col., prof. of econ., T. B A.B., 1915, Univ. of Washington; A.M., 1921, Ph.D., 1927, Michigan. C An index of local real estate prices (Univ. of Michigan, 1927). D 7, 5, 8. E Index of local real estate prices. F Monetary policies and inflation controls (Robert Morris Associates, Bul., Oct., Nov., 1941). G S.

ZIMMERMAN, Robert Raymond, Class No. 13, Adjutant General's O.C.S., Ft. Washington, Md. (1943) A U. S. Army. B A.B., 1941, Minnesota. D 1, 3, 18.

ZINKE, George W., U. S. Tariff Com., 8th and E Sts., N.W., Washington, D.C. (1943)

ZUBROW, Reuben Arthur, 20 Garden Dr., Roselle, N.J. (1942) A OPA, Iron and Steel Branch, asso. econ., R; T. B B.S., 1936, State Teachers Col., Trenton, N.J.; M.A., 1942. Pennsylvania. D 3, 1, 10. E Productivity wage determination in a socialist economy.

CLASSIFICATION OF MEMBERS

1. Economic Theory; General Works

Bell,JF 2,3
Berger,AO 5,4
Bledsoe,WA 10,11
Brown,JE 19,10
Burk,M 17,5
Carey,RD 2,3
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3. Economic Systems; National Economics

Behrendt,RF 8
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4. Statistics; Economic Mathematics; Accounting

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5. Business Cycles and Fluctuations

Doherty,RP 11,9
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6. Public Finance; Fiscal Policy; Taxation

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20. Population; Migration; Vital Statistics

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Chandrasekhar,S 3,2
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